

**SONOMA COUNTY WATER AGENCY  
(A Component Unit of the County of Sonoma)**

Independent Auditor's Report, Management's  
Discussion and Analysis, Basic Financial  
Statements, Required Supplementary Information  
and Supplementary Information

For the Year Ended June 30, 2007





**SONOMA COUNTY WATER AGENCY  
FOR THE YEAR ENDED JUNE 30, 2007**

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To the Board of Directors  
Sonoma County Water Agency  
Santa Rosa, California

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Sonoma County Water Agency (Water Agency), a component unit of the County of Sonoma, California, as of and for the year ended June 30, 2007, which collectively comprise the Water Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Sonoma County Water Agency, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2007 on our consideration of the Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 14 and 55 through 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Water Agency's basic financial statements. The accompanying combining financial statements listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Macias Gini & O'Connell CP*

Certified Public Accountants

Sacramento, California  
November 27, 2007

## **Management's Discussion and Analysis**





**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

As management of the Sonoma County Water Agency (the "Water Agency"), we offer readers of the Water Agency's financial statements this narrative overview and analysis of the financial activities of the Water Agency for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the Water Agency's financial statements (pages 15-25) and the accompanying notes to the financial statements (pages 26-54).

**Financial Highlights**

- The assets of the Water Agency exceeded its liabilities at the close of the most recent fiscal year by \$343,706,700 (net assets). Of this amount \$37,939,120 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$19,810,306 during the current fiscal year. The governmental activities realized an increase in net assets of \$10,352,894 while the business-type activities recorded an increase of \$9,457,412.
- As of the close of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$113,333,049, an increase of \$4,500,904 in comparison with the prior year. Approximately 25% of this total amount, \$28,117,555 is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund, which includes Spring Lake Park and the Waste/Recycled Water Loan fund, was \$4,903,304 or 14% of total General Fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Water Agency's basic financial statements. The Water Agency's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

*Government-wide financial statements*

The *government-wide financial statements* are designed to provide readers with a broad overview of the Water Agency's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Water Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Water Agency is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Overview of the Financial Statements (continued)**

*Government-wide financial statements (continued)*

Both the government-wide financial statements distinguish functions of the Water Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Water Agency include general government, flood control, Warm Springs Dam and debt service. The business-type activities of the Water Agency include water transmission, water supply and sanitation services.

The government-wide financial statements can be found on pages 15-17 of this report.

*Fund financial statements*

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Water Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Water Agency can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

*Governmental funds*

*Governmental funds* are used to account for essentially the same functions reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Water Agency maintains four individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue funds (Flood Control and Warm Springs Dam), and the debt service fund, all of which are considered to be major funds.

The Water Agency adopts an annual appropriated budget for its general fund, special revenue funds, and debt service fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 18-20 of this report.



**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Overview of the Financial Statements (continued)**

*Proprietary funds*

The Water Agency maintains two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Agency uses enterprise funds to account for its water and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Water Agency's various functions. The Water Agency uses an internal service fund to account for equipment and facilities rental activities. Because both of these services predominantly benefit business-type rather than governmental functions, they have been included within business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water transmission, water supply, and sanitation services, all of which are considered to be major funds. Information for the internal service fund is also provided in the proprietary fund financial statement. The basic proprietary fund financial statements can be found on pages 21-24.

*Fiduciary funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the Water Agency's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 25 of this report.

*Notes to the financial statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-54.

*Required Supplementary Information*

Schedules presenting budgetary comparison information for the Water Agency's major governmental funds can be found on pages 55-58.

Combining statements in connection with governmental funds and proprietary funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 59-65.

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Water Agency, assets exceeded liabilities by \$343,706,700 at the close of the most recent fiscal year.

The largest portion of the Water Agency's net assets (55%) reflects its investment in capital assets (e.g., land, construction in progress, infrastructure, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Water Agency uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Water Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Sonoma County Water Agency's Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
Current and other assets	\$111,248,082	\$115,362,187	\$ 54,850,679	\$ 58,542,582	\$ 166,098,761	\$173,904,769
Capital assets	158,187,454	161,672,729	181,999,593	195,667,710	340,187,047	357,340,439
Total assets	269,435,536	277,034,916	236,850,272	254,210,292	506,285,808	531,245,208
Current liabilities	4,937,182	7,158,591	8,043,854	5,979,938	12,981,036	13,138,529
Noncurrent liabilities	119,548,526	114,573,603	49,859,852	59,826,376	169,408,378	174,399,979
Total liabilities	124,485,708	121,732,194	57,903,706	65,806,314	182,389,414	187,538,508
Invested in capital assets, net of related debt	40,919,233	46,908,212	136,909,167	143,713,233	177,828,400	190,621,445
Restricted	104,969,434	106,959,969	15,042,733	8,186,166	120,012,167	115,146,135
Unrestricted	(938,839)	1,434,541	26,994,666	36,504,579	26,055,827	37,939,120
Total net assets	\$ 144,949,828	\$155,302,722	\$178,946,566	\$188,403,978	\$ 323,896,394	\$343,706,700

A portion of the Water Agency's net assets, \$115,146,135 (34%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$37,939,120), may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Water Agency is able to report positive balances in all three categories of net assets for its separate governmental and business-type activities.

The government's net assets increased by \$19,810,306 during the current fiscal year. This increase is a result of revenues exceeding expenses in both the governmental and business-type activities.

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Sonoma County Water Agency's Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
Revenues:						
Program Revenues:						
Charges for services	\$ 677,290	\$ 567,835	\$ 32,010,469	\$ 34,129,864	\$ 32,687,759	\$34,697,699
Operating grants and Contributions	-	-	-	129,107	-	129,107
Capital grants and contributions	249,088	551,897	1,014,132	4,505,308	1,263,220	5,057,205
General Revenues:						
Property taxes	14,336,086	19,985,146	40,758	42,455	14,376,844	20,027,601
Investment earnings	(1,103,205)	6,239,894	1,792,014	2,560,625	688,809	8,800,519
Miscellaneous	246,551	1,347,287	243,674	40,010	490,225	1,387,297
Total revenues	14,405,810	28,692,059	35,101,047	41,407,369	49,506,857	70,099,428
Expenses:						
General government	4,388,948	3,315,164	-	-	4,388,948	3,315,164
Flood control	6,695,989	8,114,684	-	-	6,695,989	8,114,684
Warm Springs Dam	954,111	799,079	-	-	954,111	799,079
Interest on long-term debt	3,781,113	3,728,038	-	-	3,781,113	3,728,038
Water transmission	-	-	23,745,893	26,096,811	23,745,893	26,096,811
Water supply	-	-	3,982,807	4,520,222	3,982,807	4,520,222
Sanitation	-	-	3,761,853	3,715,124	3,761,853	3,715,124
Total expenses	15,820,161	15,956,965	31,490,553	34,332,157	47,310,714	50,289,122
Increase (decrease) in net assets before transfers	(1,414,351)	12,735,094	3,610,494	7,075,212	2,196,143	19,810,306
Transfers	(1,557,623)	(2,382,200)	1,083,177	2,382,200	(474,446)	-
Increase (decrease) in net assets	(2,971,974)	10,352,894	4,693,671	9,457,412	1,721,697	19,810,306
Net assets - beginning of year, as restated	147,921,802	144,949,828	174,252,895	178,946,566	322,174,697	323,896,394
Net assets - end of year	\$ 144,949,828	\$ 155,302,722	\$178,946,566	\$ 188,403,978	\$ 323,896,394	\$343,706,700



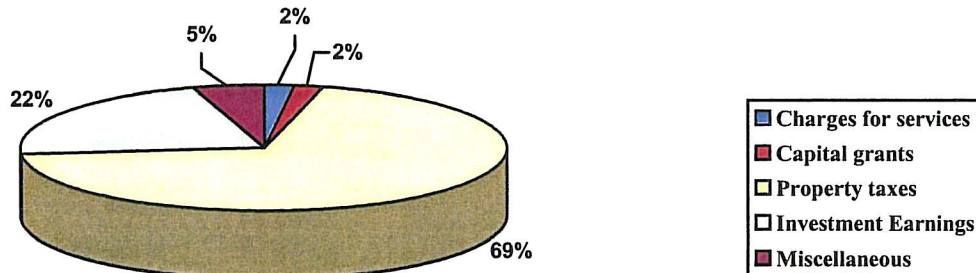
**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

*Governmental Activities*

Governmental activities increased the Water Agency's net assets by \$10,352,894. Key elements of the Agency's governmental activities are identified below.

- Property tax revenues of \$19,985,146, including \$4,632,509 received for the purpose of debt retirement and satisfaction of maintenance related assurances with the US Army Corps of Engineers for Warm Springs Dam.
- Investment gains totaling \$6,239,894 was due primarily to a \$4,081,464 increase in the fair market value of the U.S. Treasury STRIPS held by the Water Agency's debt service fund for the repayment of the contract with the US Army Corps of Engineers for Warm Springs Dam. Absent the U.S. Treasury STRIPS, investment gains totaling \$2,158,430 were realized.
- Revenues for 2006-07 increased by \$14,286,249 over the prior fiscal year while expenses increased by \$136,804 over the same period. This revenue increase is due primarily to the increase in fair market value of the U.S. Treasury STRIPS and by the aforementioned increase in property tax revenue.

*Revenues by Source – Governmental Activities*



*Business-type activities*

Business-type activities increased the Water Agency's net assets by \$9,457,412. Key elements of the Agency's business-type activities are identified below.

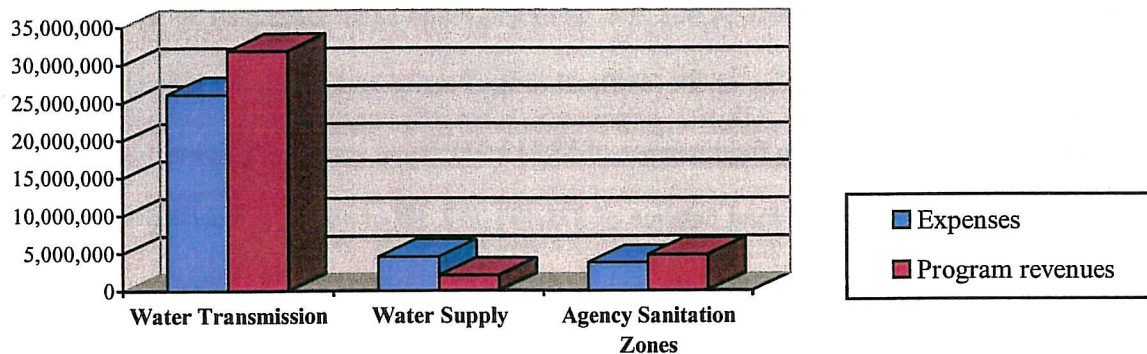
- Water sales revenues increased 6.2%, due primarily to an average 4.45% increase in water rates during 2006/07 combined with a 1.8% increase in total acre-feet sold during the year.
- Sewer service revenues increased due to increases in the annual rates combined with increases in the total Equivalent Single Family Dwelling (ESDs) serviced by the Water Agency's four sanitation zones.
- Capital grants and contributions totaling \$4,505,308 were received in fiscal year 06/07. Grants include funding from the state towards: Prop. 13 watershed restoration and North San Pablo Bay restoration. Other contributions included state and federal disaster funds and P G & E rebate for photovoltaic installation at the Airport – Larkfield – Wikiup (A-L-W) sewer treatment plant.

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

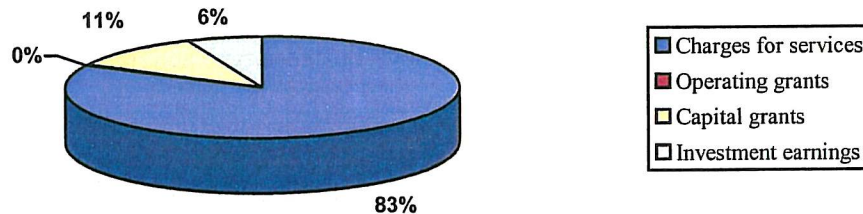
*Business-type activities (continued)*

- Investment earnings for FY 2006-07 totaled \$2,560,625.
- Transfers from the Water Agency's General Fund totaling \$2,382,200 were received during 2006-07. These transfers were for the purpose of financing various projects related to recycled water (\$650,000), Russian River projects (\$267,700), various sanitation projects (\$864,500), and Facilities projects (\$600,000).

*Expenses and Program Revenues – Business-type Activities*



*Revenues by Source – Business-type activities*



**Financial Analysis of the Government's Funds**

As noted earlier, the Water Agency uses fund accounting to ensure and demonstrate compliance with legal and governmental accounting requirements.

*Governmental funds*

The focus of the Water Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Water Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

*Governmental funds (continued)*

As of the end of the current fiscal year, the Water Agency's governmental funds reported combined ending fund balances of \$113,333,049, an increase of \$4,500,904 in comparison with the prior year. Approximately 25% of this total amount, \$28,117,555, constitutes unreserved, undesignated fund balance, which is available for spending at the Water Agency's discretion. The remaining fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed (1) to pay debt service, \$75,131,777, (2) to liquidate contracts and purchase orders of the prior period, \$9,508,717, and (3) for contingencies, \$575,000.

The general fund is the chief operating fund of the Water Agency. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund, including Spring Lake Park and the Waste/Recycled Water Loan fund was \$4,903,304, while total fund balance reached \$6,373,080.

The special revenue funds, consisting of six (6) flood control zones and Warm Springs Dam Fund has a fiscal year end fund balance of \$31,828,192, of which \$23,214,251 is unreserved, \$500,000 is designated for contingencies and the remaining fund balance of \$8,113,941 being reserved for encumbrances.

The Debt Service Fund has a total fund balance of \$75,131,777, all of which is reserved for the payment of debt service.

*Proprietary funds*

The Water Agency's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Transmission Fund at the end of the year amounted to \$25,262,718; the Water Supply Fund reported unrestricted net assets of (\$348,672); and the Sanitation Fund reported unrestricted net assets of \$4,299,170. Other factors concerning the finances of these three funds have already been addressed in the discussion of the Water Agency's business-type activities.

**General Fund Budgetary Highlights**

The difference between the original budget and the final amended budget for the Water Agency's general fund reflected an increase in budgeted appropriations, including transfers, of \$734,500, while budgeted revenues were increased by \$204,200 during the fiscal year.

The primary component of the increase in budgeted expenditures consists of a \$403,000 increase in appropriations for services and supplies. The Water Agency also increased budgeted transfers by \$831,500 which was offset by a \$500,000 decrease in contingencies.

**Capital Asset and Debt Administration**

*Capital assets*

The Water Agency's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounts to \$357,340,439 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, dams, collection systems and water storage rights.



**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

*Capital assets (continued)*

Major capital asset events during the current fiscal year included the following:

*Business Type Activities:*

- Capital expansion within the Storage Facilities fund including:

Kawana Springs Tank # 2 - \$ 7,116,201

- Capital expansion within the Pipeline Facilities fund including:

Eldridge – Madrone Pipeline - \$ 3,830,498

- Capital expansion within the Water Supply fund including:

West County Reclaimed Water Interties - \$ 1,073,963

- Capital expansion within the Sanitation Zones including:

A-L-W – Photovoltaic Facility - \$ 4,375,716

A-L-W – Storage Pond Improvements \$ 910,589

A-L-W – Fuel Tank replacement \$ 570,284

- Capital expansion within the ISF Facilities fund including:

Photovoltaic Facility at 404 Aviation Blvd - \$ 3,725,243

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Capital Asset and Debt Administration**

**Sonoma County Water Agency's Capital Assets  
(net of accumulated depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
Water storage rights	\$ 102,371,000	\$102,371,000	\$ -	\$ -	\$ 102,371,000	\$102,371,000
Land	1,537,557	1,537,914	9,665,178	11,020,874	11,202,735	12,558,788
Buildings and improvements	2,205,841	2,120,039	128,269,801	144,388,412	130,475,642	146,508,451
Machinery and equipment	291,072	259,027	1,899,608	1,534,918	2,190,680	1,793,945
Construction in progress	5,877,238	8,090,048	42,165,006	38,723,506	48,042,244	46,813,554
Infrastructure	45,904,746	47,294,701	-	-	45,904,746	47,294,701
Total	\$158,187,454	\$161,672,729	\$ 181,999,593	\$195,667,710	\$ 340,187,047	\$357,340,439

Additional information on the Water Agency's capital assets can be found in Note F on pages 38-41 of this report.

*Long-term debt*

At the end of the current fiscal year, the Water Agency had a total of \$172,936,264 in outstanding debt consisting of bonds, federal contract payable, notes payable and compensated absences. Of this amount \$414,000 comprises general obligation bonds which is backed by the full faith and credit of the Water Agency; \$32,120,000 in revenue bonds payable from the Water Agency's operating income; \$114,764,517 is a federal long-term contract payable related to the water storage rights at Warm Springs Dam; \$11,765,261 is related to capital leases; \$2,471,124 is comprised of amounts payable to employees for unused sick and vacation leave upon termination; and \$11,401,362 represents funds advanced to the Water Agency from the California Department of Water Resources.

**Sonoma County Water Agency's Outstanding Current and Long-Term Debt**

	June 30, 2006	June 30, 2007	Change
General obligation bonds	\$ 439,000	\$ 414,000	(5.7)%
Notes payable	12,553,206	11,765,261	(6.3)%
Revenue bonds	21,130,000	32,120,000	52.0%
Advances from other governments	11,401,362	11,401,362	0.0%
Federal contract payable	117,268,221	114,764,517	(2.1)%
Compensated absences	2,280,305	2,471,124	8.4%
Total	\$ 165,072,094	\$ 172,936,264	4.8%

The Water Agency's total debt increased by \$7,864,170 (4.8%) during the current fiscal year.



**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

*Long-term debt (continued)*

The outstanding total of general obligation bonds, notes payable and federal contract payable decreased by 5.7%, 6.3% and 2.1%, respectively, during fiscal year 06/07 due to annual principal payments.

Compensated absences increased due to sick and vacation leave being accrued in excess of the actual usage.

The increase in revenue bonds is primarily related to the issuance of the Series 2006A revenue bonds on July 6, 2006 in the amount of \$11,500,000. Actual principal payments during 2006/07 totaled \$510,000.

Additional information on the Water Agency's current and long-term debt can be found in Note I on pages 42-48 of this report.

**Next Year's Budgets and Rates**

During the current year, unreserved, undesignated fund balance in the general fund increased to \$4,903,304. The Water Agency has appropriated \$131,884 of this amount for spending in the 2007-2008 fiscal year budget.

Both the water and sewer rates were increased for the 2007-2008 budget year. The water rates were increased by an average of 2.39%, while the sewer rates increased an average of 4.96%.

Following are tables showing the rates charged per acre-foot of water used for municipal purposes by water contractors, along with sanitation services rates and equivalent single family dwellings by sanitation zone.

**Charges per Acre-Foot for Water Used for  
Municipal Purposes by Water Contractors**

	Santa Rosa Aqueduct	Petaluma Aqueduct	Sonoma Aqueduct
Operations & maintenance	\$ 363.34	\$ 363.34	\$363.34
Revenue bond charges			
Aqueduct revenue bonds charge	0.00	0.00	31.79
Storage facility revenue bonds charge	17.01	17.01	17.01
Common facilities revenue bonds charge	41.35	41.35	41.35
Aqueduct capital charge	20.00	40.00	.00
Total	\$ 441.70	\$ 461.70	\$ 453.49

**Rate per Equivalent Single-Family Dwelling**

	2006/07	2007/08	Change
Sanitation Zone			
Sea Ranch	\$ 716	\$ 737	2.93%
Penngrove	756	816	7.94%
Geyserville	644	663	2.95%
Airport-Larkfield-Wikiup	444	471	6.08%

**SONOMA COUNTY WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Next Year's Budgets and Rates (continued)**

**Number of Equivalent Single-Family Dwellings  
by Sanitation Zone**

	2006/07	2007/08	Change
Sanitation Zone			
Sea Ranch	549	563	2.55%
Penngrove	503	511	1.59%
Geyserville	341	340	(0.29)%
Airport-Larkfield-Wikiup	3,587	3,550	(1.03)%

**Request for Additional Information:**

This financial report is designed to provide a general overview of the Water Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Sonoma County Auditor-Controller/Treasurer-Tax Collector's Office, Fiscal Division, 585 Fiscal Drive, Room 101F, Santa Rosa, CA 95403.

## **Basic Financial Statements**



**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

	<b>GOVERNMENTAL ACTIVITIES</b>	<b>BUSINESS-TYPE ACTIVITIES</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 115,086.864	\$ 43,129.517	\$ 158,216.381
Accounts receivable	197.721	6,594.303	6,792.024
Prepaid expenses	-	1,623.957	1,623.957
Internal balances	77.602	(77.602)	-
Total current assets	<u>115,362.187</u>	<u>51,270.175</u>	<u>166,632.362</u>
Noncurrent assets:			
Restricted assets:			
Cash - revenue bond funds	-	3,129,340	3,129,340
Cash and investments with trustee	-	2,850,039	2,850,039
Cash - notes payable	-	654,537	654,537
Cash - capital projects	-	19,724	19,724
Total restricted assets	<u>-</u>	<u>6,653,640</u>	<u>6,653,640</u>
Deposits with others	-	13,000	13,000
Deferred charges	-	605,767	605,767
Capital assets (net of accumulated depreciation)			
Intangible asset - water storage rights (Warm Springs Dam)	102,371.000	-	102,371.000
Land	1,537.914	11,020,874	12,558,788
Infrastructure	47,294.701	-	47,294.701
Buildings and improvements	2,120.039	144,388.412	146,508.451
Construction in progress	8,090.048	38,723,506	46,813,554
Equipment	259.027	1,534.918	1,793.945
Total capital assets	<u>161,672.729</u>	<u>195,667.710</u>	<u>357,340.439</u>
Total noncurrent assets	<u>161,672.729</u>	<u>202,940.117</u>	<u>364,612.846</u>
Total assets	<u>277,034.916</u>	<u>254,210.292</u>	<u>531,245.208</u>

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2007**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>LIABILITIES</b>			
Current liabilities payable from unrestricted assets:			
Accounts payable and accrued expenses	1,513,972	2,973,836	4,487,808
Other current liabilities	500,000	700,000	1,200,000
Compensated absences	77,590	-	77,590
Unearned revenue	15,166	129,107	144,273
Interest payable	2,467,415	-	2,467,415
Long-term contracts payable	2,584,448	-	2,584,448
Total current liabilities payable from unrestricted assets	<u>7,158,591</u>	<u>3,802,943</u>	<u>10,961,534</u>
Current liabilities payable from restricted assets:			
Deposits from others	-	4,230	4,230
Interest payable	-	779,426	779,426
General obligation bonds payable	-	25,000	25,000
Notes payable	-	654,537	654,537
Revenue bonds payable	-	713,802	713,802
Total current liabilities payable from restricted assets	<u>-</u>	<u>2,176,995</u>	<u>2,176,995</u>
Noncurrent liabilities:			
Compensated absences	2,393,534	-	2,393,534
General obligation bonds payable	-	389,000	389,000
Notes payable	-	11,110,724	11,110,724
Revenue bonds payable	-	31,115,462	31,115,462
Long-term contracts payable	112,180,069	-	112,180,069
Advance from other governments	-	11,401,362	11,401,362
Unearned revenue	-	5,809,828	5,809,828
Total noncurrent liabilities	<u>114,573,603</u>	<u>59,826,376</u>	<u>174,399,979</u>
Total liabilities	<u>121,732,194</u>	<u>65,806,314</u>	<u>187,538,508</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	46,908,212	143,713,233	190,621,445
Restricted for flood control	20,657,102	-	20,657,102
Restricted for Warm Springs Dam	11,171,090	-	11,171,090
Restricted for debt service	75,131,777	3,022,498	78,154,275
Restricted for capital projects	-	19,724	19,724
Restricted for recycled water / water conservation	-	5,143,944	5,143,944
Unrestricted	1,434,541	36,504,579	37,939,120
Total net assets	<u>\$ 155,302,722</u>	<u>\$ 188,403,978</u>	<u>\$ 343,706,700</u>

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 3,315,164	\$ 567,835	\$ -	\$ 192,480	\$ (2,554,849)	\$ -	\$ (2,554,849)
Flood control	8,114,684	-	-	314,038	(7,800,646)	-	(7,800,646)
Warm Springs Dam	799,079	-	-	45,379	(753,700)	-	(753,700)
Interest on long-term debt	3,728,038	-	-	-	(3,728,038)	-	(3,728,038)
Total governmental activities	15,956,965	567,835	-	551,897	(14,837,233)	-	(14,837,233)
Business-type activities							
Water transmission	26,096,811	29,832,833	-	2,086,601	-	5,822,623	5,822,623
Water supply	4,520,222	1,621,702	129,107	317,872	-	(2,451,541)	(2,451,541)
Sanitation	3,715,124	2,675,329	-	2,100,835	-	1,061,040	1,061,040
Total business-type activities	34,332,157	34,129,864	129,107	4,505,308	-	4,432,122	4,432,122
Total primary government	\$ 50,289,122	\$ 34,697,699	\$ 129,107	\$ 5,057,205	(14,837,233)	4,432,122	(10,405,111)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					15,352,637	-	15,352,637
Property taxes, levied for debt service and assurances					4,632,509	42,455	4,674,964
Unrestricted investment earnings					6,239,894	2,560,625	8,800,519
Miscellaneous					1,347,287	40,010	1,387,297
Transfers					(2,382,200)	2,382,200	-
Total general revenues and transfers					25,190,127	5,025,290	30,215,417
Change in net assets					10,352,894	9,457,412	19,810,306
Net assets - beginning of year, as restated					144,949,828	178,946,566	323,896,394
Net assets - end of year					\$ 155,302,722	\$ 188,403,978	\$ 343,706,700

The accompanying notes are an integral part of these financial statements.



**SONOMA COUNTY WATER AGENCY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

	Special Revenue Funds				
		Flood Control	Warm Springs Dam	Debt Service	Total Governmental Funds
Assets	General				
Cash and investments	\$ 6,563.035	\$ 21,850.860	\$ 11,541.192	\$ 75,131.777	\$ 115,086.864
Accounts receivable	153.877	43.844	-	-	197.721
Due from other funds	77.602	-	-	-	77.602
Total assets	<u>\$ 6,794.514</u>	<u>\$ 21,894.704</u>	<u>\$ 11,541.192</u>	<u>\$ 75,131.777</u>	<u>\$ 115,362.187</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 406.268	\$ 737.602	\$ 370.102	\$ -	1,513.972
Other current liabilities	-	500.000	-	-	500.000
Unearned revenue	15.166	-	-	-	15.166
Total liabilities	<u>421.434</u>	<u>1,237.602</u>	<u>370.102</u>	<u>-</u>	<u>2,029.138</u>
Fund balances					
Reserved for:					
Encumbrances	1,394.776	7,300.416	813.525	-	9,508.717
Debt service	-	-	-	75,131.777	75,131.777
Unreserved:					
Designated for contingencies	75.000	500.000	-	-	575.000
Undesignated	4,903.304	12,856.686	10,357.565	-	28,117.555
Total fund balances	<u>6,373.080</u>	<u>20,657.102</u>	<u>11,171.090</u>	<u>75,131.777</u>	<u>113,333.049</u>
Total liabilities and fund balances	<u>\$ 6,794.514</u>	<u>\$ 21,894.704</u>	<u>\$ 11,541.192</u>	<u>\$ 75,131.777</u>	<u>\$ 115,362.187</u>

**Reconciliation of the balance sheet for government funds to the statement of net assets:**

Fund balances - total governmental funds	\$ 113,333.049
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are, therefore, not reported in the funds	161,672.729
Some liabilities are not due and payable in the current period, therefore, are not in the funds as follows:	
Interest payable	(2,467.415)
Compensated absences	(2,471.124)
Long-term contracts payable	(114,764.517)
Net assets of governmental activities (page 16)	<u>\$ 155,302.722</u>



**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund	Special Revenue Funds			Total Governmental Funds
		Flood Control	Warm Springs Dam	Debt Service	
<b>REVENUES</b>					
Property taxes	\$ 6,239,232	\$ 9,113,405	\$ 4,632,509	\$ -	\$ 19,985,146
Investment earnings	326,290	1,001,492	520,459	4,391,653	6,239,894
Intergovernmental	192,480	314,038	45,379	-	551,897
Charges for services	567,835	-	-	-	567,835
Miscellaneous	569,854	777,433	-	-	1,347,287
Total revenue	<u>7,895,691</u>	<u>11,206,368</u>	<u>5,198,347</u>	<u>4,391,653</u>	<u>28,692,059</u>
<b>EXPENDITURES</b>					
Current:					
General government:					
Salaries and benefits	23,661,089	-	-	-	23,661,089
Services and supplies	11,346,937	-	-	-	11,346,937
Costs applied	(32,049,075)	-	-	-	(32,049,075)
Flood control:					
Services and supplies	-	6,633,003	-	-	6,633,003
Warm Springs Dam:					
Services and supplies			799,079		799,079
Capital outlay	44,171	5,088,179	-	-	5,132,350
Debt service:					
Principal	-	-	-	2,503,704	2,503,704
Interest and fiscal charges	-	-	-	3,781,868	3,781,868
Total expenditures	<u>3,003,122</u>	<u>11,721,182</u>	<u>799,079</u>	<u>6,285,572</u>	<u>21,808,955</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	4,892,569	(514,814)	4,399,268	(1,893,919)	6,883,104
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	2,285,572	2,285,572
Transfers out	(2,382,200)	-	(2,285,572)	-	(4,667,772)
Total other financing sources (uses)	<u>(2,382,200)</u>	<u>-</u>	<u>(2,285,572)</u>	<u>2,285,572</u>	<u>(2,382,200)</u>
<b>Net changes in fund balances</b>	2,510,369	(514,814)	2,113,696	391,653	4,500,904
Fund balances - beginning of year	<u>3,862,711</u>	<u>21,171,916</u>	<u>9,057,394</u>	<u>74,740,124</u>	<u>108,832,145</u>
Fund balances - end of year	<u>\$ 6,373,080</u>	<u>\$ 20,657,102</u>	<u>\$ 11,171,090</u>	<u>\$ 75,131,777</u>	<u>\$ 113,333,049</u>

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds (page 19) \$ 4,500,904

Amounts reported for governmental activities in the statement of activities (page 17)  
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense.

Capital outlay	5,132,350
Depreciation expense	(1,640,280)
Loss on disposal of capital assets	(6,795)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets	2,503,704
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Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds.

Change in interest payable	53,830
Change in compensated absences	(190,819)

Change in net assets of governmental activities (page 17)	\$ 10,352,894
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The accompanying notes are an integral part of these financial statements.

SONOMA COUNTY WATER AGENCY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2007

Enterprise Funds					
ASSETS	Water Transmission	Water Supply	Sanitation	Total Enterprise Funds	Internal Service Funds
Current assets:					
Cash and investments	\$ 26,114,490	\$ 5,043,214	\$ 4,565,412	\$ 35,723,116	\$ 7,406,401
Accounts receivable	5,550,536	907,973	135,794	6,594,303	-
Prepaid expenses	1,574,732	-	40,779	1,615,511	8,446
Total current assets	33,239,758	5,951,187	4,741,985	43,932,930	7,414,847
Noncurrent assets:					
Restricted assets:					
Cash - revenue bond funds	3,029,023	-	100,317	3,129,340	-
Cash with trustee	2,849,643	-	396	2,850,039	-
Cash - notes payable	-	-	147,315	147,315	507,222
Cash - capital projects	-	-	18,292	18,292	1,432
Total restricted assets	5,878,666	-	266,320	6,144,986	508,654
Deposits with others	13,000	-	-	13,000	-
Deferred charges	473,892	-	131,875	605,767	-
Capital assets, net of accumulated depreciation:					
Land	6,709,569	-	1,621,444	8,331,013	2,689,861
Buildings and improvements	93,073,667	4,006,004	29,383,043	126,462,714	17,925,698
Construction in progress	34,584,570	2,372,880	1,441,632	38,399,082	324,424
Equipment	375,135	-	22,357	397,492	1,137,426
Total capital assets	134,742,941	6,378,884	32,468,476	173,590,301	22,077,409
Total noncurrent assets	141,108,499	6,378,884	32,866,671	180,354,054	22,586,063
Total assets	174,348,257	12,330,071	37,608,656	224,286,984	30,000,910

The accompanying notes are an integral part of these financial statements.

SONOMA COUNTY WATER AGENCY  
STATEMENT OF NET ASSETS (CONTINUED)  
PROPRIETARY FUNDS  
JUNE 30, 2007

Enterprise Funds					
	Water Transmission	Water Supply	Sanitation	Total Enterprise Funds	Internal Service Funds
<b>LIABILITIES</b>					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	2,133,096	360,924	365,215	2,859,235	114,601
Due to other funds	-	-	77,602	77,602	-
Other current liabilities	700,000	-	-	700,000	-
Unearned revenue	-	129,107	-	129,107	-
Total current liabilities payable from unrestricted assets	2,833,096	490,031	442,817	3,765,944	114,601
Current liabilities payable from restricted assets:					
Deposits from others	4,230	-	-	4,230	-
Interest payable	594,060	-	91,976	686,036	93,390
General obligation bonds payable	-	-	25,000	25,000	-
Notes payable	-	-	147,315	147,315	507,222
Revenue bonds payable	523,181	-	190,621	713,802	-
Total current liabilities payable from restricted assets	1,121,471	-	454,912	1,576,383	600,612
Noncurrent liabilities:					
General obligation bonds payable	-	-	389,000	389,000	-
Notes payable	-	-	2,444,169	2,444,169	8,666,555
Revenue bonds payable	25,663,670	-	5,451,792	31,115,462	-
Advances from other governments	11,401,362	-	-	11,401,362	-
Unearned revenue	-	5,809,828	-	5,809,828	-
Total noncurrent liabilities	37,065,032	5,809,828	8,284,961	51,159,821	8,666,555
Total liabilities	41,019,599	6,299,859	9,182,690	56,502,148	9,381,768
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	100,478,263	6,378,884	23,952,454	130,809,601	12,903,632
Restricted for:					
Debt service	2,443,733	-	156,050	2,599,783	422,715
Capital projects	-	-	18,292	18,292	1,432
Recycled water and water conservation	5,143,944	-	-	5,143,944	-
Unrestricted	25,262,718	(348,672)	4,299,170	29,213,216	7,291,363
Total net assets	\$ 133,328,658	\$ 6,030,212	\$ 28,425,966	167,784,836	\$ 20,619,142
Adjustment to reflect the net assets of the internal service funds reported as business-type activities				20,619,142	
Net assets of business-type activities				\$ 188,403,978	

The accompanying notes are an integral part of these financial statements.

**SONOMA COUNTY WATER AGENCY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Enterprise Funds</b>				
	<b>Water Transmission</b>	<b>Water Supply</b>	<b>Sanitation</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>OPERATING REVENUE</b>					
Water sales	\$ 28,576,130	\$ 1,596,699	\$ -	\$ 30,172,829	\$ -
Water services	49,138	-	-	49,138	-
Power sales	957,961	-	-	957,961	-
Flat charges	-	-	2,441,158	2,441,158	-
Sanitation services	-	-	229,699	229,699	-
Equipment rental	-	-	-	-	2,256,285
Real estate rental	-	-	-	-	4,019,637
Miscellaneous	249,604	25,003	4,472	279,079	7,726
Total operating revenue	29,832,833	1,621,702	2,675,329	34,129,864	6,283,648
<b>OPERATING EXPENSES</b>					
Services and supplies	24,343,548	4,444,158	2,774,831	31,562,537	2,510,946
Depreciation and amortization	3,643,552	137,174	955,501	4,736,227	1,145,634
Total operating expenses	27,987,100	4,581,332	3,730,332	36,298,764	3,656,580
Operating income (loss)	1,845,733	(2,959,630)	(1,055,003)	(2,168,900)	2,627,068
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Taxes and assessments	-	-	42,455	42,455	-
Investment earnings	1,730,060	279,828	289,184	2,299,072	261,553
Interest expense	(47,399)	-	(271,411)	(318,810)	(341,651)
Gain on sale of capital assets	-	-	-	-	40,010
Intergovernmental revenue	-	129,107	-	129,107	-
Total nonoperating revenue	1,682,661	408,935	60,228	2,151,824	(40,088)
<b>Income (loss) before capital contributions and transfers</b>	3,528,394	(2,550,695)	(994,775)	(17,076)	2,586,980
Capital contributions - intergovernmental	695,032	273,985	394	969,411	-
Capital contributions - connection fees	-	-	163,608	163,608	-
Capital contributions - PG&E energy rebate	-	-	1,730,995	1,730,995	1,641,294
Transfers in	-	917,700	864,500	1,782,200	600,000
<b>Change in net assets</b>	4,223,426	(1,359,010)	1,764,722	4,629,138	4,828,274
Net assets - beginning of year, as restated	129,105,232	7,389,222	26,661,244		15,790,868
<b>Net assets - end of year</b>	<u>\$ 133,328,658</u>	<u>\$ 6,030,212</u>	<u>\$ 28,425,966</u>		<u>\$ 20,619,142</u>
Adjustment to reflect the change in net assets of internal service funds reported as business-type activities				4,828,274	
Change in net assets of business-type activities				<u>\$ 9,457,412</u>	

The accompanying notes are an integral part of these financial statements

**SONOMA COUNTY WATER AGENCY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Enterprise Funds</b>				<b>Internal Service Funds</b>
	<b>Water Transmission</b>	<b>Water Supply</b>	<b>Sanitation</b>	<b>Total</b>	
<b>Cash flows from operating activities</b>					
Cash receipts from customers	\$ 28,486,664	1,554,170	\$ 2,597,816	\$ 32,638,650	\$ -
Cash receipts from interfund services provided	-	-	-	-	6,283,648
Cash payments for interfund services used	(13,990,476)	(4,647,734)	(1,870,353)	(20,508,563)	(1,797,548)
Cash payments to suppliers	(9,664,073)	65,791	(1,112,361)	(10,710,643)	(659,134)
Net cash provided by (used for) operating activities	<u>4,832,115</u>	<u>(3,027,773)</u>	<u>(384,898)</u>	<u>1,419,444</u>	<u>3,826,966</u>
<b>Cash flows from noncapital financing activities</b>					
Taxes and assessments	-	-	42,455	42,455	-
Transfers in	-	917,700	384,500	1,302,200	600,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>917,700</u>	<u>426,955</u>	<u>1,344,655</u>	<u>600,000</u>
<b>Cash flows from capital and related financing activities</b>					
Purchases of capital assets	(11,773,974)	(3,862)	(5,580,457)	(17,358,293)	(828,997)
Principal paid on long-term debt	(320,000)	-	(356,484)	(676,484)	(646,460)
Interest paid on long-term debt	(1,237,922)	-	(379,940)	(1,617,862)	(448,885)
Proceeds from issuance of long-term debt	11,626,208	-	-	11,626,208	-
Payment of bond issuance costs	(261,239)	-	-	(261,239)	-
Proceeds from sale of capital assets	-	-	-	-	40,010
Connection fees	-	-	163,608	163,608	-
Capital contributions - PG&E rebate	-	-	1,730,995	1,730,995	-
Capital contributions - intergovernmental	695,032	503,557	394	1,198,983	-
Transfers in	-	-	480,000	480,000	-
Net cash used for capital and related financing activities	<u>(1,271,895)</u>	<u>499,695</u>	<u>(3,941,884)</u>	<u>(4,714,084)</u>	<u>(1,884,332)</u>
<b>Cash flows from investing activities</b>					
Interest received	1,725,853	279,828	282,928	2,288,609	261,553
Net increase (decrease) in cash and cash equivalents	5,286,073	(1,330,550)	(3,616,899)	338,624	2,804,187
Cash and cash equivalents - beginning of year	26,707,083	6,373,764	8,448,631	41,529,478	5,110,868
Cash and cash equivalents - end of year	<u>\$ 31,993,156</u>	<u>\$ 5,043,214</u>	<u>\$ 4,831,732</u>	<u>\$ 41,868,102</u>	<u>\$ 7,915,055</u>
<b>Reconciliation to the statement of net assets:</b>					
Cash and investments	\$ 26,114,490	\$ 5,043,214	\$ 4,565,412	\$ 35,723,116	\$ 7,406,401
Restricted cash and investments	5,878,666	-	266,320	6,144,986	508,654
Cash and cash equivalents	<u>\$ 31,993,156</u>	<u>\$ 5,043,214</u>	<u>\$ 4,831,732</u>	<u>\$ 41,868,102</u>	<u>\$ 7,915,055</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	\$ 1,845,733	\$ (2,959,630)	\$ (1,055,003)	\$ (2,168,900)	\$ 2,627,068
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	3,643,552	137,174	955,501	4,736,227	1,145,634
Change in assets and liabilities:					
Receivables, net	(1,346,169)	(67,532)	(77,513)	(1,491,214)	-
Prepaid expenses	563,540	-	7,008	570,548	4,214
Inventory	220,645	-	-	220,645	-
Accounts and other payables	(95,186)	(137,785)	(292,492)	(525,463)	50,050
Due to other funds	-	-	77,601	77,601	-
Net cash provided by (used for) operating activities	<u>\$ 4,832,115</u>	<u>\$ (3,027,773)</u>	<u>\$ (384,898)</u>	<u>\$ 1,419,444</u>	<u>\$ 3,826,966</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Increase in capital assets from energy rebate received from PG&E from photovoltaic project	\$ -	\$ -	\$ -	\$ -	\$ 1,641,294

The accompanying notes are an integral part of these financial statements.



**SONOMA COUNTY WATER AGENCY  
STATEMENT OF FIDUCIARY ASSETS and LIABILITIES  
AGENCY FUND  
JUNE 30, 2007**

**ASSETS**

Cash and investments	\$ 14,100
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**LIABILITIES**

Deposits from others	\$ 14,100
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The accompanying notes are an integral part of these financial statements.





## **Notes to the Basic Financial Statements**



The notes to the basic financial statements include a summary of significant accounting policies and other notes considered essential to fully disclose and fairly present the transactions and financial position of the Water Agency as follows:

- Note A. Defining the Financial Reporting Entity
- Note B. Summary of Significant Accounting Policies
- Note C. Stewardship, Compliance and Accountability
- Note D. Restatement of Net Assets
- Note E. Cash and Investments
- Note F. Capital Assets
- Note G. Unearned Revenue
- Note H. Interfund Transactions
- Note I. Long-Term Obligations
- Note J. Debt Defeasance
- Note K. Employees' Retirement Plan
- Note L. Post Employment Benefits
- Note M. Deferred Compensation Plan
- Note N. Related Party Transactions
- Note O. Risk Management
- Note P. Commitments and Contingencies
- Note Q. Economic Dependence
- Note R. Future Governmental Accounting Standard

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note A.      Defining the Financial Reporting Entity**

The Sonoma County Water Agency (the Water Agency) was created in 1949 by an act of the California Legislature. The Water Agency is a countywide special district responsible for domestic water supply delivery to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park, Town of Windsor, and Cotati, as well as Valley of the Moon and the North Marin Water District). The Water Agency designs, constructs and maintains flood control facilities. The Water Agency began generating electrical energy in 1988. The Water Agency operates and maintains Spring Lake Park via contract with the Sonoma County Regional Parks Department.

On January 1, 1995, as part of the countywide reorganization, seven county service areas were transferred from the County to the Water Agency. Since then, two sanitation zones have been reorganized and transferred to their own districts. The sanitation zones provide wastewater treatment, reclamation, and disposal services.

The Water Agency is governed by the Board of Supervisors of the County of Sonoma, who act ex-officio as the Board of Directors (Board) of the Water Agency. The exercise of this oversight responsibility causes the Water Agency to be an integral part of the County of Sonoma's (County) reporting entity, and therefore a component unit of the County. The Water Agency's basic financial statements have also been included in the County's annual financial statements.

There are no other organizations or agencies whose basic financial statements should be combined and presented with these basic financial statements.

**Note B.      Summary of Significant Accounting Policies**

*Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) display information on the Water Agency as a whole. These financial statements include the financial activities of the Water Agency's nonfiduciary activities. The effect of interfund activity has been removed from these financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user fees charged to external parties and charges for services provided.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Water Agency at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note B. Summary of Significant Accounting Policies (continued)**

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide and proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The agency (fiduciary) fund financial statement applies the accrual basis of accounting, but does not have a measurement focus. All assets and all liabilities associated with the operations of the Water Agency are included on the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Nonexchange transactions, in which the Water Agency receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Water Agency must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Water Agency on a reimbursement basis.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Water Agency considers revenues to be available if they are collected within three hundred sixty five days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due (matured). This approach differs from the manner in which the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

For its business-type activities and proprietary funds, the Water Agency applies (a) all Governmental Accounting Standards Board (GASB) pronouncements and (b) only Financial Accounting Standards Board (FASB) Statements and Interpretations, APB opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except for those that conflict with a GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes accounting principles generally accepted in the United States of America.



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note B. Summary of Significant Accounting Policies (continued)**

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)*

Proprietary funds distinguish operating and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Transmission Fund, the Water Supply Fund and the Sanitation Fund are charges to customers for sales and services. Operating expenses include the cost of services and supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

The Water Agency's financial statements are presented utilizing the following major funds:

*Governmental fund types:* These are the funds through which most governmental functions typically are financed. The major funds included in this category are as follows:

*General Fund:* This fund is established to account for resources devoted to financing the general services that the Water Agency performs. General tax revenues and other sources of revenue used to finance the fundamental operations of the Water Agency are included in this fund. The fund is charged with all costs of operating the Water Agency for which a separate fund has not been established.

*Special Revenue Funds:* These funds are used to account for assets, liabilities, revenues and expenditures related to activities supported by specific taxes or other designated revenue sources. These funds are generally required by state, charter or ordinance to finance specific government functions.

*Flood Control:* This fund is established to account for the proceeds of specific revenue sources other than special assessments or major capital projects that are legally restricted to expenditures related to flood control. Six flood control zones account for the maintenance of existing flood control structures and the construction of new projects in the following areas: Zone 1A - Laguna Mark West, Zone 2A- Petaluma Basin, Zone 3A - Valley of the Moon, Zone 5A - Lower Russian River, Zone 7A - North Coast, Zone 8A - South Coast.

*Warm Springs Dam:* This fund is established for the purpose of accumulating resources for the payment of principal and interest on the long-term federal contract payable to the U.S. Army Corps of Engineers for Water Storage Rights at Warm Springs Dam.

*Debt Service Fund:* This fund includes the debt service annual obligations related to the Water Agency's contract with the U.S. Army Corps of Engineers for water supply storage space at Warm Springs Dam.



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note B. Summary of Significant Accounting Policies (continued)**

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)*

*Proprietary fund types:* These funds account for operations that are organized to be self-supporting through user charges. The major funds included in this category are as follows:

*Water Transmission:* This fund accounts for the transportation of water and generation of electrical power for services to eight prime contractors (the cities of Santa Rosa, Petaluma, Sonoma, Rohnert Park and Cotati, Valley of the Moon, and North Marin Water Districts and the Town of Windsor).

*Water Supply:* This fund accounts for the water supply and erosion control activities along the Russian River to secure and defend the Water Agency's appropriative water rights. This fund also includes program costs to convert recycled water to beneficial use.

*Sanitation:* This fund accounts for the sanitation services and for the engineering, administration and operational services of four zones: Sea Ranch, Penngrove, Geyserville and Airport-Larkfield-Wikiup.

Additionally, the Water Agency reports the following fund types:

*Internal Service Funds:* These funds are established to account for the financing of goods or services provided by one department or agency to other departments of the Water Agency or other governmental units on a cost reimbursement basis. These activities are recorded as operating revenue in the internal services funds, while expenses to provide the services are recorded as operating expenses. Nonoperating revenue and expenses include investment earnings, interest expense and gain on sale of capital assets. The Water Agency maintains separate internal service funds for equipment and facilities.

*Agency Fund:* This fund is used to account for assets held by the Water Agency on behalf of others as their agent. This fund is custodial in nature and does not involve the measurement of the results from operations. Funds held are surety deposits pertaining to river access for gravel mining.

*Encumbrances*

Encumbrance accounting is employed as an extension of the budgetary process. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note B.      Summary of Significant Accounting Policies (continued)**

*Cash and Investments*

The Water Agency's cash and investments are pooled with the Sonoma County Treasurer except for restricted funds held by an outside trustee. The Sonoma County Treasurer also acts as a disbursing agent for the Water Agency. The fair value of the investments in the pool is determined quarterly. Realized and unrealized gains or losses and interest earned on pooled investments are allocated quarterly to the various funds based on the average daily cash balances for that quarter in the County Treasury Investment Pool (the Treasury Pool), an external investment pool. Interest earnings from cash and investments held with third party fiscal agents or trustees is recognized directly to the related fund.

For purposes of the statement of cash flows for proprietary funds, the Water Agency considers all pooled cash and investments as cash and cash equivalents because the County Treasurer's investment pool is used as a demand deposit account. Cash with trustee and restricted cash and investments with a maturity of three months or less are also treated as cash and cash equivalents.

*Accounts Receivable*

The Water Agency's accounts receivable are reported at their estimated net realizable value and consist primarily of water sales to local water districts and cities.

*Restricted Assets - Enterprise Funds*

Restricted assets in the Enterprise Funds primarily represent cash and investments in the Water Transmission, Water Supply and Sanitation funds that are restricted for debt service pursuant to various bond covenants. Restricted assets also include amounts for customer deposits.

*Deferred Charges - Enterprise Funds*

Deferred charges consist of debt issuance costs of \$605,767 as of June 30, 2007, net of accumulated amortization. These costs are amortized over the term of the related bond issuance using the straight-line method.

*Capital Assets*

Capital assets (including infrastructure) are reported in the applicable governmental or business-type activity columns in the government-wide financial statements and proprietary fund financial statements. Such assets are stated at cost or, if historical cost is not available, at engineers estimated historical cost. Donated capital assets are recorded at estimated fair value on the date of donation. The Water Agency defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note B. Summary of Significant Accounting Policies (continued)**

*Capital Assets (continued)*

Capital assets used in operations are depreciated using the straight-line method over the estimated useful lives in the government-wide statements and proprietary funds. Estimated useful lives of capital assets are as follows: utility plant and equipment, 3 - 50 years; transmission system and reservoirs, 10 - 50 years; infrastructure, 35 - 75 years. Water storage rights are recorded at historical cost and are not amortized due to its inexhaustible life. For further information regarding capital assets, refer to Note F.

*Capitalized Interest*

Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed. Interest incurred is netted against interest earned on the invested proceeds over the same period only when proceeds of tax exempt debt is externally restricted for the acquisition or construction of specified assets.

*Bond Discounts and Premiums and Deferred Amount on Refunding*

Bond discounts and premiums are deferred and amortized using the straight-line method over the term of the outstanding bonds. Unamortized bond discounts reduce the carrying value of the related debt and unamortized bond premiums increase the carrying value of the related debt. Deferred amount on refunding of revenue bonds, results from the difference between the carrying amount of the defeased/refunded debt and its reacquisition price. Deferred amounts on refunding are amortized over the remaining life of the refunded debt or the remaining life of the newly issued debt, whichever is shorter. The unamortized portion of the deferred amount on refunding is reported as a direct reduction or addition to the carrying amount of the refunding debt.

*Unearned Revenue*

In the government-wide financial statements and fund financial statements, unearned revenue represents amounts for which asset recognition criteria have been met, however, revenue recognition criteria have not been satisfied.

*Compensated Absences*

Water Agency employees are entitled to certain compensated absences based on their length of employment. Vacation pay, which may be generally accumulated up to six weeks, is payable upon termination. Sick leave may be accumulated without limitation. The monetary equivalent of 25% of all unused sick leave is vested and payable to employees who separate from the Water Agency for reasons other than disability.



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note B. Summary of Significant Accounting Policies (continued)**

*Compensated Absences (continued)*

Since vacation and sick leave balances do not require the use of current financial resources, no liability is recorded within the governmental funds. However, vacation and sick leave balances are reflected in the government-wide statement of net assets and are recorded in the period earned. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the liability amount for compensated absences includes the estimated employer liability for taxes and workers' compensation premiums.

*Property Tax Revenue*

Property taxes, including tax rates, are regulated by the State and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the Water Agency.

The County has adopted the Alternative Method of Property Tax Allocation known as the Teeter Plan. State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the Water Agency each fiscal year. Any subsequent delinquent payments and related penalties and interest will revert to the County.

Property taxes are recognized as revenue when levied as amounts are considered to be both measurable and available. Liens on real property are established January 1 for the ensuing fiscal year. The property tax is levied as of July 1 on all taxable property located in the County. Secured property taxes are due in two equal installments on November 1 and February 1, and are delinquent after December 10 and April 10, respectively. Additionally, supplemental property taxes are levied on a pro rata basis when changes in the assessed valuations occur due to sales transactions or the completion of construction. Property tax collection and valuation information is disclosed in the County's comprehensive annual financial report.

*Net Assets and Fund Balance*

Government-wide Financial Statements

Net assets consist of the following three components:

*Net assets invested in capital assets, net of related debt* – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds.

*Restricted net assets* – These amounts represent external restrictions imposed by creditors, contributors, grantors, laws or regulations of other governments, constitutional provisions, and enabling legislation.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note B. Summary of Significant Accounting Policies (continued)**

*Net Assets and Fund Balance (continued)*

*Unrestricted net assets* – This amount consists of all net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

Fund Financial Statements

In the fund financial statements, governmental funds report reservations or designations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties to be used for specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Portions of unreserved fund balance, which are presented in the fund financial statements, may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intentions are subject to change in the future, and have not been legally authorized and may not result in expenditures. The following represents amounts which have been designated by the Water Agency's board for contingencies, which represent future unforeseen circumstances:

Fund Balance Designated for Contingencies:

General Fund	\$ 75,000
Flood Control	500,000
	<hr/>
	\$ 575,000

*Interfund Transactions*

Quasi-external transactions are accounted for as revenue, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Costs applied as reported in the General Fund consist of expenditures incurred by the General Fund that have been allocated to the Water Agency's Special Revenue and Enterprise Funds. In addition, costs applied include amounts which have been reimbursed by the specific sanitation districts that have a contractual relationship with the Water Agency for certain expenses provided and reported in the General Fund. Transfers between governmental and proprietary funds are netted in conjunction with the reconciliation for reporting in the government-wide financial statements.



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note B.      Summary of Significant Accounting Policies (continued)**

*Connection Fees*

Sewer connection fees represent fees received from developers and residents to connect to, or extend, existing trunk sewer systems. These fees are required to be used for capital purposes. Sewer and water connection fees are recorded as capital contributions in the enterprise funds, in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Certain Nonexchange Transactions*.

*Estimates*

The preparation of the basic financial statements requires management to make estimates and assumptions that affects certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note C.      Stewardship, Compliance and Accountability**

*Budget and Budgetary Accounting*

The Board adopts a budget annually to be effective July 1st for the ensuing fiscal year for all governmental and proprietary fund types. The General Manager is authorized to transfer budgeted amounts within any fund except for transfers between major expenditure classes or transfers between capital assets and operating expenses. Such transfers require approval by the County Administrator and/or Board. Revisions that change total appropriations must be approved by the Board. Annual appropriations that have not been encumbered lapse at year-end.

**Note D.      Restatement of Net Assets**

Effective July 1, 2006, the Water Agency has restated and decreased beginning net assets of governmental activities by \$2,521,245, to \$144,949,828 from the amount previously reported of \$147,471,073, representing the accrual of interest due and payable November 1 on the long-term contracts payable with the U.S. Army Corps of Engineers for the water supply storage space at Warm Springs Dam.

Effective July 1, 2006, the Water Agency has restated and decreased beginning net assets by \$1,949,641 in the Water Supply Enterprise Fund, to \$7,389,222 from the amount previously reported of \$9,338,863. The Water Agency determined that certain expenses related to the Mumford Dam and Crocker Creek fish passages projects were incorrectly capitalized during the year ended June 30, 2005. As a result of the restatement, beginning capital assets in the Water Supply Enterprise Fund and capital assets of the business-type activities have been decreased by \$ 1,949,641.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note E. Cash and Investments**

*Authorized Investments*

The Water Agency follows the practice of pooling cash and investments of all funds with the County Treasurer except for funds required to be held with third party fiscal agents or trustees under the provisions of bond indentures and lease agreements. The Treasury Oversight Committee has regulatory oversight for all funds deposited in the Treasury Pool.

The Water Agency's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the County Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. The policy addresses the soundness of financial institutions in which the County will deposit funds, the types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer maturity terms.

Permitted investments include the following:

- U.S. Treasury and Federal Agency securities
- Bonds and notes issued by local agencies
- Registered state warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local Agency Investment Fund (State Pool) deposits
- Repurchase agreements
- Reverse repurchase agreements
- Money market mutual funds
- Collateralized mortgage obligations
- Collateralized time deposits
- Joint powers authority pools

A copy of the County's Investment Policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 158,216,381
Cash and investments restricted for revenue bond funds	3,129,340
Cash and investments with trustee	2,850,039
Cash and investment restricted for notes payable	654,537
Cash and investment restricted for capital projects	19,724
Fiduciary funds:	
Cash and investments	14,100
<hr/>	
Total cash and investments	\$ 164,884,121
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**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note E. Cash and Investments (continued)**

Cash and investments as of June 30, 2007 consist of the following:

Investment in County Treasurer's Pool:	
Unrestricted	\$ 88,720,481
Restricted for revenue bonds	3,129,340
Restricted for notes payable	654,537
Restricted for capital projects	19,724
Nonpooled cash and investments:	
Cash on hand	750
Investments	69,509,250
Restricted for revenue bonds	2,850,039
<hr/>	
Total cash and investments	\$164,884,121
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As of June 30, 2007, the Water Agency's investments consisted of \$92,524,082 in the Treasury Pool managed by the County Treasurer, which is not rated by credit rating agencies, and had a weighted average maturity of approximately 414 days. The credit rating and other information regarding specific investments maintained in the Treasury Pool as of June 30, 2007 are disclosed in the County's 2006-2007 Comprehensive Annual Financial Report.

Also, the Agency reported \$69,509,250 of nonpooled cash and investments in U.S. Treasury securities, which represent funds that are specifically to be used for the repayment of the Water Agency's \$114,764,517 contract payable to the U.S. Army Corps of Engineers (refer to Note I).

*Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the County Treasurer manages the Agency's exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing, or coming close to maturity, evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note E. Cash and Investments (continued)**

*Interest Rate Risk (continued)*

The information about the sensitivity of the fair values of the Water Agency's investments to market interest rate fluctuations is provided by the following table:

Investment Type	Amount	Maturity			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
County Treasury Pool	\$ 92,524,082	\$ 92,524,082	\$ -	\$ -	\$ -
U.S. Treasury securities	69,509,250	6,072,094	5,791,203	15,788,484	41,857,469
Guaranteed investment contracts	988,088	-	-	-	988,088
Money market mutual fund	1,861,951	1,861,951	-	-	-
<b>Total</b>	<b>\$164,883,371</b>	<b>\$100,458,127</b>	<b>\$ 5,791,203</b>	<b>\$ 15,788,484</b>	<b>\$42,845,557</b>

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that is in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- 1) The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- 2) The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

*Concentration of Credit Risk*

The investment policy of the Water Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by California Government Code. Other than the Water Agency's investments in U.S. Treasury securities, which is not subject to concentration of credit risk, there were no nonpooled investments in any one issuer that represented 5% or more of the total fair value of the Water Agency's investments.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note E. Cash and Investments (continued)**

*Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Water Agency follows the County's policy to purchase investments with the minimum ratings required by the California Government Code. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating at year end	
				AAA	Not Rated
County Treasury Pool	\$ 92,524,082	N/A	\$ -	\$ -	\$92,524,082
U.S. Treasury securities	69,509,250	N/A	69,509,250	-	-
Guaranteed investment contract	988,088	N/A	-	-	988,088
Money market mutual fund	1,861,951	AAA	-	1,861,951	
<b>Total</b>	<b>\$ 164,883,371</b>		<b>\$ 69,509,250</b>	<b>\$ 1,861,951</b>	<b>\$93,512,170</b>

**Note F. Capital Assets**

Capital asset activity for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	Retirements	Transfers	June 30, 2007
<i>Governmental activities:</i>					
Capital assets, not being depreciated:					
Intangible assets - water storage rights	\$102,371,000	\$ -	\$ -	\$ -	\$102,371,000
Land	1,537,557	357	-	-	1,537,914
Construction in progress	5,877,238	5,088,179	(3,733)	(2,871,636)	8,090,048
<b>Total capital assets, not being depreciated</b>	<b>109,785,795</b>	<b>5,088,536</b>	<b>(3,733)</b>	<b>(2,871,636)</b>	<b>111,998,962</b>



**SONOMA COUNTY WATER AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**Note F. Capital Assets (continued)**

	July 1, 2006	Additions	Retirements	Transfers	June 30, 2007
<i>Governmental activities (continued):</i>					
Capital assets, being depreciated:					
Infrastructure	61,962,461	-	-	2,871,636	64,834,097
Buildings and improvements	3,419,740	-	-	-	3,419,740
Equipment	945,580	43,814	(29,452)	-	959,942
Total capital assets being depreciated	66,327,781	43,814	(29,452)	2,871,636	69,213,779
Less accumulated depreciation for:					
Infrastructure	(16,057,715)	(1,481,681)	-	-	(17,539,396)
Buildings and improvements	(1,213,899)	(85,802)	-	-	(1,299,701)
Equipment	(654,508)	(72,797)	26,390	-	(700,915)
Total accumulated depreciation	(17,926,122)	(1,640,280)	26,390	-	(19,540,012)
Total capital assets, being depreciated, net	48,401,659	(1,596,466)	(3,062)	2,871,636	49,673,767
Capital assets, net	\$158,187,454	\$3,492,070	\$ (6,795)	\$ -	\$161,672,729

	July 1, 2006, as restated	Additions	Retirements	Transfers	June 30, 2007
<i>Business-type activities</i>					
Capital assets, not being depreciated:					
Land	\$ 9,665,178	\$ 1,349,210	\$ -	\$ 6,486	\$11,020,874
Construction in progress	42,165,006	17,924,029	(5,394)	(21,360,135)	38,723,506
Total capital assets, not being depreciated	51,830,184	19,273,239	(5,394)	(21,353,649)	49,744,380

**SONOMA COUNTY WATER AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**Note F. Capital Assets (continued)**

	July 1, 2006, as restated	Additions	Retirements	Transfers	June 30, 2007
<i>Business-type activities (continued):</i>					
Capital assets, being depreciated:					
Buildings and improvements	185,359,251	-	-	21,353,649	206,712,900
Equipment	7,833,079	255,325	(232,634)	-	7,855,770
Total capital assets, being depreciated	193,192,330	255,325	(232,634)	21,353,649	214,568,670
Less accumulated depreciation for:					
Buildings and improvements	(57,089,450)	(5,235,038)	-	-	(62,324,488)
Equipment	(5,933,471)	(620,015)	232,634	-	(6,320,852)
Total accumulated depreciation	(63,022,921)	(5,855,053)	232,634	-	(68,645,340)
Total capital assets, being depreciated, net	130,169,409	(5,599,728)	-	21,353,649	145,923,330
Capital assets, net	\$181,999,593	\$13,673,511	\$ (5,394)	\$ -	\$195,667,710

The total amount of interest capitalized into capital assets of business-type activities during the year ended June 30, 2007 amounted to \$1,692,105.

Depreciation expense was charged to functions within the governmental and business-type activities as follows:

*Governmental activities:*

General government	\$ 158,600
Flood control	1,481,680
Total depreciation expense - governmental activities	\$ 1,640,280

*Business-type activities:*

Water Transmission	\$ 3,623,337
Water Supply	137,174
Sanitation	948,908
Internal Service Funds	1,145,634
Total depreciation expense - business-type activities	\$ 5,855,053

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note F. Capital Assets (continued)**

*Intangible Asset – Warm Springs Dam Project*

Pursuant to the Flood Control Act of 1962, a project was authorized for the construction of Warm Springs Dam and Lake Sonoma. The Warm Springs Dam has a total gross storage capacity of 381,000 acre-feet and total water supply storage of 355,000 acre-feet. The Water Agency has contracted for the right to the storage space for 212,000 acre-feet of water. The Water Agency uses the storage space to control and dispose of flood, storm and other waters. Since such flood control activities are a governmental function, the cost of the project has been capitalized as an inexhaustible intangible asset.

In March 1992, the cost of the project to the Water Agency was established at \$102,371,000. The estimated cost of the Water Agency's portion of the project is approximately 30% of the total project joint use construction costs and accrued interest. The liability for the contract is shown as a long-term contracts payable within the governmental activities (refer to Note I). Repayment of this obligation comes from the proceeds of a countywide levied property tax.

The project became operational for water supply on November 1, 1994. The Water Agency does not own any part of the tangible dam facilities. The payments under the contract only entitle the Water Agency to permanent water storage rights.

**Note G. Unearned Revenue**

Revenue under a supplemental water supply agreement with the Marin Municipal Water District is deferred and recognized over the term of the agreement on a straight-line basis (nine years plus an additional forty years at the option of Marin Municipal Water District). As of June 30, 2007, deferred revenue totaled \$5,938,935, of which the amount recognizable within one year is reported as a component of current liabilities in the accompanying statement of net assets. The annual amount that will be recognized as intergovernmental revenue over the term of the agreement is \$129,107.

**Note H. Interfund Transactions**

A summary of interfund activity as of and for the year ended June 30, 2007 is as follows:

*Interfund Transfers*

Transfer from	Transfer to	Amount	Purpose
Warm Springs	Debt Service Fund	\$ 2,285,572	Transfer funds for scheduled Dam Fund principal and interest payment
General Fund	Water Supply Fund	917,700	Provide funding to cover portion of Water Supply projects

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note H. Interfund Transactions (continued)**

*Interfund Transfers (continued)*

Transfer from	Transfer to	Amount	Purpose
General Fund	Sanitation Zone	\$ 864,500	Provide funding to cover operating and construction expenses
General Fund	Internal Service Fund	600,000	Provide funding to cover staff and construction costs
Total transfers		\$ 4,667,772	

*Due to/from Other Funds*

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Sanitation Fund	\$ 77,602	Provide funding to cover operating expenses

**Note I. Long-Term Obligations**

Long-term obligations as of June 30, 2007, consist of the following:

	Governmental Activities	Business-type Activities
General obligation bonds	\$ -	\$ 414,000
Notes payable	-	11,765,261
Water revenue bonds payable	-	26,090,000
Water and wastewater revenue bonds payable	-	6,030,000
Advance from other governments	-	11,401,362
Long-term contracts payable	114,764,517	-
Compensated absences	2,471,124	-
	\$ 117,235,641	\$55,700,623

*Governmental Activities:*

Long-Term Contracts Payable:

	Maturity Dates	Interest Rates	Authorized and Issued	Outstanding June 30, 2007
1986 Federal contract payable	2034	3.225%	\$ 102,371,000	\$114,764,517



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note I. Long-Term Obligations (continued)**

Annual payments on the contract commenced on November 1, 1993, and continue until 2034. The annual payments include principal and interest at a rate of 3.225%. The payments of principal and interest are currently funded by property tax revenues received by Water Agency. The amount of the payments began at \$930,562 and increased to \$6,285,571 annually at the beginning of fiscal year 2006-07 until 2034.

*Compensated Absences*

As of June 30, 2007, vested vacation and sick leave for Water Agency employees amounted to \$2,471,124. There were no compensated absences which are considered due or matured. Compensated absences are generally liquidated by the General Fund.

*Business-type Activities:*

General Obligation Bonds Payable:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized &amp; Issued</u>	<u>Outstanding June 30, 2007</u>
<u>Sanitation Zones</u>				
1977 Penngrove	2017	5%	\$ 300,000	\$ 144,000
1980 Geyserville	2020	5%	500,000	270,000
<u>Total general obligation bonds payable</u>				<u>\$ 414,000</u>

Notes Payable:

	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Authorized &amp; Issued</u>	<u>Outstanding June 30, 2007</u>
Note Payable – LaSalle Bank	2016	4.65%	\$8,800,000	\$7,503,353
Note Payable – Banc of America	2020	4.54%	2,000,000	1,670,424
Note Payable – Banc of America	2020	4.08%	2,750,000	2,591,484
<u>Total notes payable</u>				<u>\$11,765,261</u>

On July 1, 2003, the Water Agency purchased an office facility on Aviation Boulevard in Santa Rosa and financed the purchase with a note payable with LaSalle Bank. The Agency also signed two notes payable with Banc of America Leasing and Capital, LLC. The first note was executed on June 23, 2005 for facilities improvements with a maturity on April 1, 2020. The second note was executed on February 17, 2006 for the acquisition of solar paneling with a maturity on October 1, 2020.



**SONOMA COUNTY WATER AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**Note I. Long-Term Obligations (continued)**

*Business-type Activities (continued)*

Water Revenue Bonds Payable:

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2007</u>
Water Revenue Bonds, 2003 Series A	2032	2.00 - 5.00%	\$ 15,680,000	\$14,590,000
Deferred amount for unamortized discount				(25,150)
Water Revenue Bonds 2006 Series A	2036	4.00 - 5.00%	\$ 11,500,000	\$11,500,000
Deferred amount for unamortized premium				122,001
<hr/> Total water revenue bonds payable, net				<hr/> \$26,186,851

The 2003 Series A Bonds are special obligations of the Water Agency, payable solely from the net revenues of the Water Agency's water transmission system, and amounts on deposit in the related funds and accounts. Neither the full faith and credit nor the taxing power of the Water Agency is pledged to the payment of 2003 Series A Bonds or interest thereon. The bond proceeds were used to construct and equip certain facilities and improvements known as the Wohler/Forestville Pipeline, Kawana Springs Tank No. 2, the Eldridge to Madrone portion of the Annadel-Sonoma Pipeline, the funding of a reserve fund, and the payment of issuance costs. The facilities constructed with the 2003 Series A Bond proceeds are part of the water supply and transmission system project.

In July 2006, the Water Agency issued Water Revenue Bonds 2006 Series A for the purpose of acquiring and constructing certain facilities for, and improvements to, the transmission system, and finance certain related costs.

Water and Wastewater Revenue Bonds Payable:

	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Authorized and Issued</u>	<u>Outstanding June 30, 2007</u>
California Statewide Communities Development Authority (CSCDA)				
2005C Revenue Bonds	2027	2.70 - 5.00%	\$ 6,220,000	\$6,030,000
Deferred amount for unamortized premium				125,147
Deferred amount on refunding				(512,734)
<hr/> Total water and wastewater revenue bonds payable, net				<hr/> \$5,642,413

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note I. Long-Term Obligations (continued)**

*Business-type Activities (continued)*

The terms covering the CSCDA 2005C Water and Wastewater Revenue Bonds provide that the revenue be irrevocably pledged and deposited with a trustee for the security and payment of interest and principal on the bonds. In addition, this pledge shall constitute a first lien on the revenues and such other funds for the payment of the bonds. All funds and accounts held under this bond are required to be used for investments authorized by the CSCDA. These bond proceeds are being used to finance a portion of the cost of upgrades to the Airport-Larkfield-Wikiup Sanitation Zone's treatment plant, wastewater pipelines, storage ponds and irrigation system in connection with the Storage, Reclamation and Treatment Facilities Project.

Advances from Other Governments:

The Water Agency is in the process of constructing a collector well to be located adjacent to the Russian River at Wohler Road. The State of California Department of Water Resources has loaned the Water Agency up to \$15,858,989 to assist in the financing of this project. As of June 30, 2007, the Water Agency has received loan funds in the amount of \$11,401,362. Repayment of this loan will commence upon completion of the project.

*Changes in Long-Term Obligations*

A summary of changes in long-term obligations for the year ended June 30, 2007 is as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Amounts Due Within One Year
<u>Governmental activities</u>					
Long-term contracts payable	\$117,268,221	\$ -	\$ (2,503,704)	\$ 114,764,517	\$2,584,448
Compensated absences	2,280,305	2,275,411	(2,084,592)	2,471,124	77,590
Total governmental activities	119,548,526	2,275,411	(4,588,296)	117,235,641	2,662,038
<u>Business-type activities</u>					
General obligation bonds	439,000	-	(25,000)	414,000	25,000
Long-term notes payable					
LaSalle Bank	7,895,346	-	(391,993)	7,503,353	410,432
Banc of America					
Leasing	1,924,893	-	(254,467)	1,670,424	96,790
Banc of America					
Leasing	2,732,967	-	(141,483)	2,591,484	147,315

**SONOMA COUNTY WATER AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**Note I. Long-Term Obligations (continued)**

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007	Amounts Due Within One Year
<u>Business-type activities (continued)</u>					
Water revenue bonds					
Series 2003A	14,910.000	-	(320.000)	14,590.000	325.000
Deferred amount for unamortized discount	(26.176)	-	1.026	(25.150)	(1.026)
Series 2006A	-	11,500.000	-	11,500.000	195.000
Deferred amount for unamortized premium	126.208	-	(4.207)	122.001	4.207
Water and wastewater revenue bonds					
Series 2005C	6,220.000	-	(190.000)	6,030.000	210.000
Deferred amount for unamortized premium	131.405	-	(6.258)	125.147	6.258
Deferred amount on Refunding	(538.371)	-	25.637	(512.734)	(25.637)
Advance from other governments	11,401.362	-	-	11,401.362	-
Total business-type activities	45,216.634	11,500.000	(1,306.745)	55,409.887	1,393.339
Total	\$164,765.160	\$13,775.411	\$(5,895.041)	\$ 172,645.528	\$4,055.377

*Debt Service Requirements*

The annual principal and interest requirements on the long-term debt outstanding as of June 30, 2007 (excluding compensated absences), are as follows:

*General Obligation Bonds*

Year ending June 30,	Principal	Interest	Total
2008	\$ 25,000	\$ 20,450	\$ 45,450
2009	27,000	19,175	46,175
2010	28,000	17,825	45,825
2011	30,000	16,400	46,400
2012	31,000	14,900	45,900
2013 - 2017	179,000	49,550	228,550
2018 - 2020	94,000	8,300	102,300
Total general obligation bonds	\$ 414,000	\$ 146,600	\$ 560,600

**SONOMA COUNTY WATER AGENCY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**Note I. Long-Term Obligations (continued)**

*Notes Payable*

Year ending June 30,	Principal	Interest	Total
2008	\$ 654,537	\$ 523,179	\$ 1,177,716
2009	684,353	493,363	1,177,716
2010	715,538	462,178	1,177,716
2011	748,148	429,568	1,177,716
2012	782,249	395,467	1,177,716
2013 - 2017	6,891,593	1,274,844	8,166,437
2018 - 2021	1,288,843	106,190	1,395,033
Total notes payable	\$ 11,765,261	\$ 3,684,789	\$15,450,050

*Water Revenue Bonds*

Year ending June 30,	Principal	Interest	Total
2008	\$ 520,000	\$ 1,172,803	\$1,692,803
2009	540,000	1,163,068	1,703,068
2010	560,000	1,144,295	1,704,295
2011	575,000	1,124,035	1,699,035
2012	600,000	1,101,423	1,701,423
2013 - 2017	3,380,000	5,118,145	8,498,145
2018 - 2022	4,150,000	4,326,769	8,476,769
2023 - 2027	5,165,000	3,265,843	8,430,843
2028 - 2032	6,520,000	1,865,831	8,385,831
2033 - 2037	4,080,000	431,250	4,511,250
Total water revenue bonds	\$ 26,090,000	\$ 20,713,462	\$46,803,462

*Water & Wastewater Revenue Bonds*

Year ending June 30,	Principal	Interest	Total
2008	\$ 210,000	\$ 249,689	\$ 459,689
2009	215,000	243,791	458,791
2010	220,000	237,481	457,481
2011	230,000	230,501	460,501
2012	235,000	222,944	457,944
2013 - 2017	1,315,000	982,025	2,297,025
2018 - 2022	1,590,000	689,424	2,279,424
2023 - 2027	2,015,000	249,359	2,264,359
Total water and wastewater revenue bonds	\$ 6,030,000	\$ 3,105,214	\$9,135,214



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note I. Long-Term Obligations (continued)**

*Long-Term Contracts Payable - 1986 Federal Contract*

Year ending June 30,	Principal	Interest	Total
2008	\$ 2,584,448	\$ 3,701,123	\$6,285,571
2009	2,667,797	3,617,775	6,285,572
2010	2,753,833	3,531,739	6,285,572
2011	2,842,644	3,442,927	6,285,571
2012	2,934,319	3,351,252	6,285,571
2013 - 2017	16,153,607	15,274,251	31,427,858
2018 - 2022	18,931,889	12,495,968	31,427,857
2023 - 2027	22,188,013	9,239,844	31,427,857
2028 - 2032	26,004,163	5,423,695	31,427,858
2033 - 2035	17,703,804	1,153,910	18,857,714
Total long-term contracts payable	\$114,764,517	\$ 61,232,484	\$175,997,001

**Note J. Debt Defeasance**

In September 2005, the Water Agency and the California Statewide Communities Development Authority, issued Water and Wastewater Revenue Bonds (Series 2005C) totaling \$6,220,000. The proceeds of the bonds were used to purchase U.S. government securities, which were deposited into an irrevocable trust with an escrow agent to advance refund the Water Agency's Series 2000B revenue bonds totaling \$6,000,000, with maturity dates through October 2026. As a result, the Series 2000B revenue bonds are considered defeased and the related liability is not reported in the Water Agency's financial statements. As of June 30, 2007, \$5,675,000 of the Series 2000B revenue bonds was still outstanding.

**Note K. Employees' Retirement Plan**

*Plan Description*

The Water Agency contributes to the County's single-employer defined benefit public employee retirement plan (the Plan) that is administered by the Sonoma County Employees' Retirement Association (the Retirement Association). The Water Agency joined the Retirement Association as of October 1, 1963. Substantially all full-time employees of the Water Agency participate in this plan. All permanent employees working at least half time of a full-time position for the Water Agency are eligible. Benefits are based on the employee's final average salary, years of service, and age at the time of retirement. The Plan is governed by the California Government Code, Title 3, Division 4, Part 3, Chapter 3.

The financial statements for the County (the primary government) contain additional financial information for the defined pension benefits, which is not presented here because the Water Agency's portion cannot be separated from the whole. In addition, an audit report of the Retirement Association regarding the financial position of the Plan and other information for the year ended December 31, 2006, is on file at the County Auditor-Controller Treasurer Tax Collectors Office.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note K. Employees' Retirement Plan (continued)**

*Funding Status*

Plan members were required to contribute 7% - 14%, depending upon their age at their date of entry, of their annual covered salary as of June 30, 2007, 2006 and 2005. The Plan is required to contribute at an actuarially determined rate which was 24.77%, 24.77% and 21.86% of annual covered payroll as of June 30, 2007, 2006 and 2005, respectively. The Water Agency's contributions to the Plan during the years ended 2007, 2006 and 2005 were \$2,771,642, \$2,443,825 and \$2,024,098, respectively, equal to the required contribution each year.

The Water Agency's total payroll for covered employees for the plan years ended December 31, 2006, 2005, and 2004 was \$15,219,130, \$14,308,571 and \$13,972,162, respectively, which represents approximately 5.14%, 5.39% and 5.52%, respectively, of the Retirement Association's payroll for covered employees.

**Note L. Post Employment Benefits**

In addition to the pension benefits described in Note K, the Water Agency, through participation in the County's post employment benefit plans, provides post-retirement health care benefits, in accordance with County resolutions, to all active, covered employees who retire from the Water Agency on or after attaining age 50 with at least 10 years of service. The County pays approximately 85% of the health care insurance premium for the retirees and their eligible dependents. The retiree can choose one of three health care providers. The County reimburses a fixed amount of \$93.50 per month for a Medicare supplement for each retiree aged 65 and over covered under Medicare Parts A and B. The financial statements for the County (the primary government) contain the financial information for the post-employment benefits, which is not presented here because the Water Agency's share cannot be separated from the whole.

The Water Agency recognizes expenditures for the cost of post-retirement health care benefits biweekly as part of the payroll process. The amount is based on a rate determined by the Retirement Association and approved by the Board of Supervisors and applied to the Water Agency's covered payroll. The amount of supplemental health care premiums paid for the year ended June 30, 2007 was \$1,136,743. The number of retirees from the Water Agency cannot be separated from the whole.

**Note M. Deferred Compensation Plan**

The Water Agency participates in the County's deferred compensation plan (the Plan) which was created in accordance with California Government Code Section 53212 and Internal Revenue Code Section 457. The Plan, available to permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note M.      Deferred Compensation Plan (continued)**

In 1998, the County amended the Plan's documents to comply with a new federal law. The Plan's assets have been placed into a trust for the exclusive benefit of the employees and their beneficiaries. The County is the administrator of the Plan but the assets are held by an independent investment manager and, therefore, are not recorded as assets of the County or of the Water Agency. Each employee directs the investment of the assets in his or her account.

**Note N.      Related Party Transactions**

The Water Agency is a special district under the Board of Supervisors, and as such, has the same board members as the County. The Water Agency manages and provides administration, engineering, operational, and maintenance services for the Occidental County Sanitation District, South Park County Sanitation District, Russian River County Sanitation District and the Sonoma Valley County Sanitation District, which are all component units of the County. Since, both the Water Agency and the four sanitation districts are component units of the County, the sanitation districts and the Water Agency are considered related parties.

The Water Agency allocates overhead costs to the sanitation districts via the use of an overhead rate charged on labor applicable to the districts. The overhead rate is reviewed periodically by management to determine its effectiveness. A summary of the overhead costs charged to the sanitation districts by the Water Agency for administrative support for the year ended June 30, 2007 is as follows:

Occidental County Sanitation District	\$ 396,242
South Park County Sanitation District	84,408
Russian River County Sanitation District	1,658,033
Sonoma Valley County Sanitation District	4,678,291

Also, for the year ended June 30, 2007, the Water Agency provided the Occidental County Sanitation District \$367,000 in funding to assist the District in meeting operating and construction expenses.

**Note O.      Risk Management**

The Water Agency is covered by the County's self-insurance program, which is accounted for in the County's Risk Management Internal Service Fund. The Water Agency is covered under this program for general liability, auto liability, public employees' performance/dishonesty and property insurance.

The County maintains a self-insured retention of \$1,000,000 per occurrence for general and automobile liability. Excess liability coverage is maintained through participation in the California State Association of Counties, Excess Insurance Authority (CSAC-EIA). Limits of this coverage are \$15,000,000.

The County also maintains public employee faithful performance/employee dishonesty coverage through a joint-purchase program provided by National Union Fire Insurance Company and administered by CSAC-EIA with limits of \$5,000,000 and a \$25,000 deductible.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note O. Risk Management (continued)**

The County maintains "All Risk" property insurance including flood and earthquake through participation in the CSAC-EIA Property Insurance Program. Limits of coverage are \$200,000,000 per occurrence including flood and \$50,000,000 per occurrence for earthquake. Deductibles for most perils are \$50,000 per occurrence, with flood at \$200,000 per county per occurrence and earthquake at 5% of total insured values per unit, per occurrence, subject to a \$500,000 minimum per occurrence. For losses within the deductible, the County maintains a deductible self-insured pool for losses in excess of \$5,000.

During the year ended June 30, 2007, the Water Agency paid annual premiums to the County for this insurance coverage in the amount of \$76,551. Settlements have not exceeded coverages for each of the past three fiscal years.

**Note P. Commitments and Contingencies**

*Construction*

The Water Agency has active construction projects as of June 30, 2007. The projects include expansion and/or improvements of several flood control, water storage and wastewater treatment facilities. As of June 30, 2007, the Water Agency's commitments to construction projects are as follows:

Project	Spent-to-date	Remaining Commitment
Flood Control:		
Zone 1A – Laguna Mark West	\$ 7,144,563	\$2,266,921
Zone 2A – Petaluma Basin	945,485	751,756
Sanitation facilities	1,441,632	182,489
Water storage facilities	3,171,802	27,681
Common facilities	30,959,036	1,598,930
Pipeline facilities	453,732	2,590,225
Internal service facilities	324,424	-
Water supply facilities	2,372,880	-
<b>Total</b>	<b>\$ 46,813,554</b>	<b>\$7,418,002</b>

The balances spent-to-date include both internal expenses and expenses paid to outside contractors. The remaining commitment balances relate to commitments with outside contractors only.

The commitments for water storage and related facilities are being financed by revenue bonds and a construction loan provided by the State of California Department of Water Resources secured by water and wastewater revenues. These projects are also being funded by existing resources from the business-type activities.



**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note P.      Commitments and Contingencies (continued)**

*Pending Litigation, Claims and Assessments*

The Water Agency is directly and indirectly involved in various claims, legal actions and complaints relating principally to violations of the Clean Water Act, environmental protection laws, property damage and disputes over water rights. The ultimate amount of liability is contingent upon the final settlement of these claims. The Water Agency is unable to determine the extent of such liabilities at this time and whether any may be covered by insurance.

The Water Agency is liable for clean-up costs related to lead-contaminated fill involving a certain parcel in connection with its flood control project, purchased by the Water Agency as part of a litigation settlement in 2000, and the possible clean-up of the adjacent properties for some lengthy distance. The North Coast Regional Water Control Board (NC Regional Board) is requiring the Water Agency to perform an updated Human Health Risk Assessment and an Ecological Risk Assessment as a condition of obtaining site closure for the purchased parcel. The Water Agency is in the process of developing its work plan for submittal to the NC Regional Board. The Water Agency will be liable for clean-up costs for at least the purchased parcel. However, the NC Regional Board has not yet specified the level of clean-up which will be required, nor whether the Water Agency may be required to perform further work beyond the boundary of the purchased parcel. Accordingly, costs are unknown, although they are expected to be substantial. Liability could reach into the millions, depending on the extent of contamination and the direction of the NC Regional Board.

The contractors of the Wohler-Forestville Pipeline, the Pumphouse and Connecting Pipeline for Wohler Collector 6, and one of the Agency's water storage tanks has filed claims for extensions of time and extra work costs plus relief for assessed liquidated damages, which were rejected by the Agency. However, if the contractors prevail, payment of the claim, together with costs and expenses of litigation could exceed \$1,000,000.

The contractors of the Wohler-Forestville Pipeline, the Pumphouse and Connecting Pipeline for Wohler Collector 6, have also filed supplemental claims in February 2007 in excess of \$4,000,000. Under the terms of the contract, the claims must be mediated prior to any litigation. It is too soon to determine what the outcome of any negotiations and litigation could be, and the ultimate amount of liability is contingent upon the final settlement of the claims.

The contractor hired to construct an above-ground fuel storage tank at the Airport-Larkfield-Wikiup wastewater treatment plant has filed claims against the Water Agency that exceed \$450,000. However, the Water Agency has filed claims and assessed liquidated damages against the contractor in excess of \$400,000. It is unlikely that this claim will be settled and mediation followed by litigation may result. At this time, it is too early to predict the outcome of this matter.

The minimum cost of liabilities related to these claims is estimated by management at \$1,200,000 of which, \$500,000 was accrued in the Flood Zone special revenue fund, and \$700,000 was accrued in the Water Transmission enterprise fund.

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note P. Commitments and Contingencies (continued)**

*Other Regulatory Matters*

In June 2005, the NC Regional Board issued an Administrative Civil Liability (ACL) to the Water Agency with a mandatory penalty for violations of effluent limitations that occurred during periods of discharge to receiving waters from January 2000 through August 2004. A mandatory penalty was assessed against the Water Agency. However, the majority of the penalty is eligible to be permanently suspended if the Executive Officer of the NC Regional Board determines that reasonable progress is being made toward completion of a compliance project and the suspended amount is spent toward completion of the compliance project within five years from the date of the ACL. Annual reports are being submitted to the NC Regional Board to report the progress on the selected compliance project

The Water Agency is subject to Section VII of the Endangered Species Act. Section VII requires that all affected agencies, including the Water Agency, consult with fish and wildlife officials before performing any work which might disrupt or harm any endangered or threatened species or their habitat. This Act increases the possibility of threatened litigation from various environmental groups and individuals. The Water Agency is also subject to Section X of the Endangered Species Act which deals with habitat conservation planning.

The Endangered Species Act also affects the manner and the extent to which the Water Agency can maintain flood control channels. Water Agency staff and its contractors cannot disrupt environmentally sensitive areas to perform flood control work to the levels that were appropriate in previous years. This development increases the Water Agency's degree of exposure to individual property owners and possible litigation in the event of wet weather and possibility of flooding.

**Note Q. Economic Dependence**

Four major customers purchased water from the Water Agency during the year ended June 30, 2007. Water sales revenue for the year ended June 30, 2007 and accounts receivable as of June 30, 2007 associated with those customers are as follows:

Sales		% of total water sales
Santa Rosa	\$ 10,386,343	35.2%
North Marin County	4,560,878	15.4%
Petaluma	4,544,410	15.4%
Marin Municipal	3,718,368	12.6%
	<hr/> \$ 23,209,999	<hr/> 78.6%

**SONOMA COUNTY WATER AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007**

**Note Q. Economic Dependence (continued)**

Accounts Receivable		% of total water accounts receivable
Santa Rosa	\$ 2,861,849	52.9%
Petaluma	881,580	16.3%
North Marin County	816,004	15.0%
Marin Municipal	194,739	3.6%
	<u>\$ 4,754,172</u>	<u>87.8%</u>

**Note R. Future Governmental Accounting Standards**

The Governmental Accounting Standard Board (GASB) has released the following new standards:

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement establishes once any of five specified obligating events occurs, that a government is required to estimate the components of the expected pollution remediation outlays and determine whether the outlays for those components should be recorded as a liability or, if appropriate, capitalized when goods and services are acquired. GASB Statement No. 49 is effective for financial statements for years beginning after December 15, 2007.

The impact on the basic financial statements of the Water Agency of this pronouncement which has been issued, but not yet adopted, is unknown at this time.

### **Required Supplementary Information**





**SONOMA COUNTY WATER AGENCY  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>See Note A</b>	<b>Final Budget</b>
<b>REVENUES</b>				
Property taxes	\$ 4,684,000	\$ 4,684,000	\$ 6,239,232	\$ 1,555,232
Fines, forfeitures and penalties	1,200	1,200	-	(1,200)
Investment earnings	143,500	143,500	326,290	182,790
Intergovernmental	86,000	86,000	192,480	106,480
Charges for services	778,000	778,000	567,835	(210,165)
Miscellaneous	214,000	418,200	569,854	151,654
Total revenues	<u>5,906,700</u>	<u>6,110,900</u>	<u>7,895,691</u>	<u>1,784,791</u>
<b>EXPENDITURES</b>				
Current:				
Salaries and benefits	24,752,093	24,752,093	23,661,089	1,091,004
Services and supplies	15,205,260	15,608,260	8,777,948	6,830,312
Costs applied	(34,866,866)	(34,866,866)	(32,049,075)	(2,817,791)
Capital outlay	191,642	191,642	(2,471)	194,113
Debt service:				
Interest and fiscal charges	-	-	2,013,819	(2,013,819)
Contingencies	500,000	-	-	-
Total expenditures	<u>5,782,129</u>	<u>5,685,129</u>	<u>2,401,310</u>	<u>3,283,819</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(1,650,000)</u>	<u>(2,481,500)</u>	<u>(2,749,200)</u>	<u>(267,700)</u>
Net changes in fund balance	<u>\$ (1,525,429)</u>	<u>\$ (2,055,729)</u>	2,745,181	<u>\$ 4,800,910</u>
GAAP basis difference - encumbrances			(234,812)	
Fund balance - beginning of year			<u>3,862,711</u>	
Fund balance - end of year			<u>\$ 6,373,080</u>	

**SONOMA COUNTY WATER AGENCY  
FLOOD CONTROL SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>See Note A</b>	<b>Final Budget</b>
<b>REVENUES</b>				
Property taxes	\$ 7,028,500	\$ 7,028,500	\$ 9,113,405	\$ 2,084,905
Investment earnings	306,200	306,200	1,001,492	695,292
Intergovernmental	81,600	81,600	314,038	232,438
Miscellaneous	-	-	777,433	777,433
Total revenues	<u>7,416,300</u>	<u>7,416,300</u>	<u>11,206,368</u>	<u>3,790,068</u>
<b>EXPENDITURES</b>				
Current:				
Services and supplies	22,888,717	23,640,717	7,478,432	16,162,285
Capital outlay	-	-	1,942,262	(1,942,262)
Total expenditures	<u>22,888,717</u>	<u>23,640,717</u>	<u>9,420,694</u>	<u>14,220,023</u>
Net changes in fund balance	<u>\$ (15,472,417)</u>	<u>\$ (16,224,417)</u>	1,785,674	<u>\$ 18,010,091</u>
GAAP basis difference - encumbrances			(2,300,488)	
Fund balance - beginning of year			<u>21,171,916</u>	
Fund balance - end of year			<u>\$ 20,657,102</u>	

**SONOMA COUNTY WATER AGENCY  
WARM SPRINGS DAM SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>(Budgetary Basis) See Note A</b>	<b>Final Budget</b>
<b>REVENUES</b>				
Property taxes	\$ 3,945,000	\$ 3,945,000	\$ 4,632,509	\$ 687,509
Investment earnings	252,000	252,000	520,459	268,459
Intergovernmental	44,000	44,000	45,379	1,379
Total revenues	<u>4,241,000</u>	<u>4,241,000</u>	<u>5,198,347</u>	<u>957,347</u>
<b>EXPENDITURES</b>				
Current				
Services and supplies	1,735,328	1,735,328	132,289	1,603,039
Debt service:				
Interest and fiscal charges	624,700	624,700	510,987	113,713
Total expenditures	<u>2,360,028</u>	<u>2,360,028</u>	<u>643,276</u>	<u>1,716,752</u>
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(7,285,572)</u>	<u>(7,285,572)</u>	<u>(2,285,572)</u>	<u>5,000,000</u>
Net changes in fund balance	<u>\$ (5,404,600)</u>	<u>\$ (5,404,600)</u>	2,269,499	<u>\$ 7,674,099</u>
GAAP basis difference - encumbrances			(155,803)	
Fund balance - beginning of year			<u>9,057,394</u>	
Fund balance - end of year			<u>\$ 11,171,090</u>	



**SONOMA COUNTY WATER AGENCY**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2007**

Budgetary data, as revised is presented as required supplementary information for the General and Special Revenue Funds, since the operations of these funds are budgeted annually. Budgets are adopted on a non-GAAP basis. For the purpose of a budgetary presentation, actual GAAP expenditures have been adjusted to include current year encumbrances, to exclude expenditures against prior year encumbrances and to exclude other financing sources and off-setting expenditures related to capital lease additions. In addition, the budgetary presentation reflects the effect of reimbursements which are negative expenditures used to transfer costs between departments within the governmental funds. For GAAP purposes, reimbursements are recorded as expenditures/expenses in the reimbursing fund and as reductions if the expenditures/expenses in the fund that is reimbursed. Reimbursements primarily consist of charges initially incurred by departments responsible for communications, vehicles and data processing and eventually applied to other funds.

The results of actual operations on a budgetary basis are reconciled to the results of operations on a GAAP basis as follows:

	Special Revenue Funds			
	General Fund	Flood Control	Warm Springs Dam	Total
Excess of revenue and other sources over expenditures and other uses - budgetary basis	\$ 2,745,181	\$ 1,785,674	\$ 2,269,499	\$ 6,800,354
Expenditure charges against prior year encumbrances	(1,629,588)	(9,600,904)	(969,328)	(12,199,820)
Current year encumbrances	1,394,776	7,300,416	813,525	9,508,717
Excess of revenue and other sources over (under) expenditures and other uses - GAAP basis	\$ 2,510,369	\$ (514,814)	\$ 2,113,696	\$ 4,109,251

## **Supplementary Information**



SONOMA COUNTY WATER AGENCY  
COMBINING BALANCE SHEET  
FLOOD CONTROL SPECIAL REVENUE FUNDS  
JUNE 30, 2007

	Flood Control Funds		
	Zone 1A Laguna Mark West	Zone 2A Petaluma Basin	Zone 3A Valley of the Moon
<b>Assets</b>			
Cash and investments	\$ 11,092,700	\$ 7,440,188	\$ 752,846
Accounts receivable	43,844	-	-
Total assets	<u>\$ 11,136,544</u>	<u>\$ 7,440,188</u>	<u>\$ 752,846</u>
<b>Liabilities and fund balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 542,129	\$ 174,696	\$ 20,130
Other current liabilities	500,000	-	-
Total liabilities	<u>1,042,129</u>	<u>174,696</u>	<u>20,130</u>
<b>Fund balances</b>			
Reserved for encumbrances	5,424,483	1,609,291	266,642
Unreserved:			
Designated for contingencies	500,000	-	-
Undesignated	4,169,932	5,656,200	466,074
Total fund balances	<u>10,094,415</u>	<u>7,265,492</u>	<u>732,716</u>
<b>Total liabilities and fund balances</b>	<u>\$ 11,136,544</u>	<u>\$ 7,440,188</u>	<u>\$ 752,846</u>



SONOMA COUNTY WATER AGENCY  
COMBINING BALANCE SHEET (CONTINUED)  
FLOOD CONTROL SPECIAL REVENUE FUNDS  
JUNE 30, 2007

	Flood Control Funds			
	Zone 5A Lower Russian River	Zone 7A North Coast	Zone 8A South Coast	Total Flood Control Funds
<b>Assets</b>				
Cash and investments	\$ 1,271,456	\$ 72,300	\$ 1,221,370	\$ 21,850,860
Accounts receivable	-	-	-	43,844
<b>Total assets</b>	<u>\$ 1,271,456</u>	<u>\$ 72,300</u>	<u>\$ 1,221,370</u>	<u>\$ 21,894,704</u>
<b>Liabilities and fund balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 647	\$ -	\$ -	\$ 737,602
Other current liabilities	-	-	-	500,000
<b>Total liabilities</b>	<u>647</u>	<u>-</u>	<u>-</u>	<u>1,237,602</u>
<b>Fund balances</b>				
Reserved for encumbrances	-	-	-	7,300,416
Unreserved:				
Designated for contingencies	-	-	-	500,000
Undesignated	<u>1,270,809</u>	<u>72,300</u>	<u>1,221,370</u>	<u>12,856,686</u>
<b>Total fund balances</b>	<u>1,270,809</u>	<u>72,300</u>	<u>1,221,370</u>	<u>20,657,102</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,271,456</u>	<u>\$ 72,300</u>	<u>\$ 1,221,370</u>	<u>\$ 21,894,704</u>

**SONOMA COUNTY WATER AGENCY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FLOOD CONTROL SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Flood Control Funds</b>		
	<b>Zone 1A Laguna Mark West</b>	<b>Zone 2A Petaluma Basin</b>	<b>Zone 3A Valley of the Moon</b>
<b>REVENUES</b>			
Property taxes	\$ 6,495,699	\$ 1,627,971	\$ 715,232
Investment earnings	513,563	350,496	27,971
Intergovernmental	135,919	48,419	40,371
Miscellaneous	777,433	-	-
Total revenue	<u>7,922,614</u>	<u>2,026,886</u>	<u>783,574</u>
<b>EXPENDITURES</b>			
Current:			
Services and supplies	4,768,514	1,352,560	446,589
Capital outlay	4,874,557	213,520	102
Total expenditures	<u>9,643,071</u>	<u>1,566,080</u>	<u>446,691</u>
<b>Net changes in fund balances</b>	(1,720,457)	460,806	336,883
Fund balances - beginning of year	<u>11,814,872</u>	<u>6,804,686</u>	<u>395,833</u>
Fund balances - end of year	<u>\$ 10,094,415</u>	<u>\$ 7,265,492</u>	<u>\$ 732,716</u>

**SONOMA COUNTY WATER AGENCY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES (CONTINUED)  
FLOOD CONTROL SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	<b>Flood Control Funds</b>			
	<b>Zone 5A Lower Russian River</b>	<b>Zone 7A North Coast</b>	<b>Zone 8A South Coast</b>	<b>Total Flood Control Funds</b>
<b>REVENUES</b>				
Property taxes	\$ 149,634	\$ -	\$ 124,869	\$ 9,113,405
Investment earnings	52,672	3,274	53,516	1,001,492
Intergovernmental	88,060	-	1,269	314,038
Miscellaneous	-	-	-	777,433
Total revenue	<u>290,366</u>	<u>3,274</u>	<u>179,654</u>	<u>11,206,368</u>
<b>EXPENDITURES</b>				
Current:				
Services and supplies	29,592	87	35,661	6,633,003
Capital outlay	-	-	-	5,088,179
Total expenditures	<u>29,592</u>	<u>87</u>	<u>35,661</u>	<u>11,721,182</u>
<b>Net changes in fund balances</b>	260,774	3,187	143,993	(514,814)
Fund balances - beginning of year	<u>1,010,035</u>	<u>69,113</u>	<u>1,077,377</u>	<u>21,171,916</u>
Fund balances - end of year	<u>\$ 1,270,809</u>	<u>\$ 72,300</u>	<u>\$ 1,221,370</u>	<u>\$ 20,657,102</u>

**SONOMA COUNTY WATER AGENCY**  
**COMBINING STATEMENT OF NET ASSETS**  
**SANITATION ENTERPRISE FUNDS**  
**JUNE 30, 2007**

	Sanitation Funds				
	Sea Ranch	Penngrove	Geyersville	Airport Larkfield Wikiup	Total Sanitation Funds
<b>ASSETS</b>					
Current assets:					
Cash and Investments	\$ 966,180	\$ 1,068,622	\$ 798,486	\$ 1,732,124	\$ 4,565,412
Accounts receivable	22,398	8,197	7,198	98,001	135,794
Prepaid expenses	-	-	-	40,779	40,779
Total current assets	988,578	1,076,819	805,684	1,870,904	4,741,985
Noncurrent assets:					
Restricted assets					
Cash - revenue bond funds	-	16,731	69,355	14,231	100,317
Cash with trustee	-	-	-	396	396
Cash - notes payable	-	-	-	147,315	147,315
Cash - capital projects	-	-	-	18,292	18,292
Total restricted assets	-	16,731	69,355	180,234	266,320
Deferred charges	-	-	-	131,875	131,875
Capital assets, net of accumulated depreciation:					
Land	-	-	106,213	1,515,231	1,621,444
Buildings and improvements	372,026	743,691	962,478	27,304,848	29,383,043
Construction in progress	965,013	139,130	5,400	332,089	1,441,632
Equipment	1,810	-	-	20,547	22,357
Total capital assets	1,338,849	882,821	1,074,091	29,172,715	32,468,476
Total noncurrent assets	1,338,849	899,552	1,143,446	29,484,824	32,866,671
Total assets	2,327,427	1,976,371	1,949,130	31,355,728	37,608,656
<b>LIABILITIES</b>					
Current liabilities payable from unrestricted assets:					
Accounts payable and accrued expenses	37,671	145,605	17,513	164,426	365,215
Due to other funds	3,491	-	15,735	58,376	77,602
Total current liabilities payable from unrestricted assets	41,162	145,605	33,248	222,802	442,817
Current liabilities payable from restricted assets:					
Interest payable	-	2,400	-	89,576	91,976
General obligation bonds payable	-	10,000	15,000	-	25,000
Note payable	-	-	-	147,315	147,315
Revenue bonds payable	-	-	-	190,621	190,621
Total current liabilities from restricted assets	-	12,400	15,000	427,512	454,912
Noncurrent liabilities:					
General obligation bonds payable	-	134,000	255,000	-	389,000
Note payable	-	-	-	2,444,169	2,444,169
Revenue bonds payable	-	-	-	5,451,792	5,451,792
Total noncurrent liabilities	-	134,000	255,000	7,895,961	8,284,961
Total liabilities	41,162	292,005	303,248	8,546,275	9,182,690
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,338,849	738,821	804,091	21,070,693	23,952,454
Restricted for:					
Debt service	-	14,331	69,355	72,364	156,050
Capital projects	-	-	-	18,292	18,292
Unrestricted	947,416	931,214	772,436	1,648,104	4,299,170
Total net assets	\$ 2,286,265	\$ 1,684,366	\$ 1,645,882	\$ 22,809,453	\$ 28,425,966

**SONOMA COUNTY WATER AGENCY**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**SANITATION ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Lakefield Wikiup	
<b>OPERATING REVENUE</b>					
Flat charges	\$ 398,526	\$ 376,420	\$ 214,794	\$ 1,451,418	\$ 2,441,158
Sanitation services	5,615	7,168	1,696	215,220	229,699
Miscellaneous	188	-	-	4,284	4,472
Total operating revenue	404,329	383,588	216,490	1,670,922	2,675,329
<b>OPERATING EXPENSES</b>					
Services and supplies	454,323	387,061	254,917	1,678,530	2,774,831
Depreciation and amortization	9,092	36,425	79,328	830,656	955,501
Total operating expenses	463,415	423,486	334,245	2,509,186	3,730,332
<b>Operating loss</b>	(59,086)	(39,898)	(117,755)	(838,264)	(1,055,003)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Taxes and assessments	-	15,411	27,044	-	42,455
Investment earnings	53,622	56,998	41,253	137,311	289,184
Interest expense	-	(1,121)	(13,659)	(256,631)	(271,411)
Total nonoperating revenue (expenses)	53,622	71,288	54,638	(119,320)	60,228
<b>Income (loss) before capital contributions and transfers</b>	(5,464)	31,390	(63,117)	(957,584)	(994,775)
Capital contributions - intergovernmental	-	152	242	-	394
Capital contributions - connection fees	3,464	13,580	2,132	144,432	163,608
Capital contributions - PG&E energy rebate	-	-	-	1,730,995	1,730,995
Transfers in	-	-	-	864,500	864,500
Change in net assets	(2,000)	45,122	(60,743)	1,782,343	1,764,722
Net assets - beginning of year	2,288,265	1,639,244	1,706,625	21,027,110	26,661,244
Net assets - end of year	\$ 2,286,265	\$ 1,684,366	\$ 1,645,882	\$ 22,809,453	\$ 28,425,966



**SONOMA COUNTY WATER AGENCY  
COMBINING STATEMENT OF CASH FLOWS  
SANITATION ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007**

	Sanitation Funds				Total Sanitation Funds
	Sea Ranch	Penngrove	Geyserville	Airport Larkfield Wikiup	
<b>Cash flows from operating activities</b>					
Cash receipts from customers	\$ 403,532	\$ 380,828	\$ 214,569	\$ 1,598,887	\$ 2,597,816
Cash payments for interfund services used	(250,292)	(100,690)	(197,077)	(1,322,294)	(1,870,353)
Cash payments to suppliers	(197,524)	(539,011)	(35,307)	(340,519)	(1,112,361)
Net cash used for operating activities	(44,284)	(258,873)	(17,815)	(63,926)	(384,898)
<b>Cash flows from noncapital financing activities</b>					
Taxes and assessments	-	15,411	27,044	-	42,455
Transfers in	-	-	-	384,500	384,500
Net cash provided by noncapital financing activities	-	15,411	27,044	384,500	426,955
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets	(233,061)	(11,441)	(3,298)	(5,332,657)	(5,580,457)
Principal paid on long-term debt	-	(10,000)	(15,000)	(331,484)	(356,484)
Interest paid on long-term debt	-	(7,450)	(7,017)	(365,473)	(379,940)
Connection fees	3,464	13,580	2,132	144,432	163,608
Capital contributions - PG&E rebate	-	-	-	1,730,995	1,730,995
Capital contributions - intergovernmental	-	152	242	-	394
Transfers in	-	-	-	480,000	480,000
Net cash used for capital and related financing activities	(229,597)	(15,159)	(22,941)	(3,674,187)	(3,941,884)
<b>Cash flows from investing activities</b>					
Interest received	53,622	56,998	41,253	131,055	282,928
Net increase (decrease) in cash and cash equivalents	(220,259)	(201,623)	27,541	(3,222,558)	(3,616,899)
Cash and cash equivalents - beginning of year	1,186,439	1,286,976	840,300	5,134,916	8,448,631
Cash and cash equivalents - end of year	<u>\$ 966,180</u>	<u>\$ 1,085,353</u>	<u>\$ 867,841</u>	<u>\$ 1,912,358</u>	<u>\$ 4,831,732</u>
<b>Reconciliation to the statement of net assets:</b>					
Cash and investments	\$ 966,180	\$ 1,068,622	\$ 798,486	\$ 1,732,124	\$ 4,565,412
Restricted cash and investments	-	16,731	69,355	180,234	266,320
Cash and cash equivalents	<u>\$ 966,180</u>	<u>\$ 1,085,353</u>	<u>\$ 867,841</u>	<u>\$ 1,912,358</u>	<u>\$ 4,831,732</u>
<b>Reconciliation of operating loss to net cash used for operating activities:</b>					
Operating loss	\$ (59,086)	\$ (39,898)	\$ (117,755)	\$ (838,264)	\$ (1,055,003)
Adjustments to reconcile operating loss to net cash used for operating activities					
Depreciation and amortization	9,092	36,425	79,328	830,656	955,501
Change in assets and liabilities:					
Receivables, net	(797)	(2,760)	(1,921)	(72,035)	(77,513)
Prepaid expenses	-	-	-	7,008	7,008
Accounts and accrued expenses	3,017	(252,640)	6,798	(49,667)	(292,492)
Due to other funds	3,490	-	15,735	58,376	77,601
Net cash used for operating activities	<u>\$ (44,284)</u>	<u>\$ (258,873)</u>	<u>\$ (17,815)</u>	<u>\$ (63,926)</u>	<u>(384,898)</u>

